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DRUG STORE NEWS®
SECOND CLASS

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Annual Report Part II:

Chains build on core category strengths

"The most successful chains. . . exploit new merchandising opportunities. . . without eroding core aspects of their business."

In a sense, the drug store industry has come full circle. After years of trying to be all things to all customers, many drug chains have abandoned elements of their variety-store approach and rediscovered the crucial importance of pharmacy and H&BAs to their business.

The most successful chains have been those with the flexibility to exploit new opportunities in general merchandise, convenience foods and other non-drug categories, without eroding the core aspects of their business. By now, most drug chains have their priorities in good order, and are putting their basic strengths ahead of other concerns. Those strengths haven't changed: a strong health- and beauty-care image, convenience, good selection of basic drug store merchandise and strong service levels at the forefront.

Determined to maintain their role as America's prescription drug specialists, drug chains continued to reap big gains at the pharmacy counter last year. Chain drug Rx sales climbed another 13.7 percent in 1989, spearheading an 11 percent rise to nearly $40 billion in total chain drug store sales.

Prescription sales now account for 30.6 percent of that total, continuing their resurgence as the core element of

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NEWS IN BRIEF

Revco's Charlotte Expo draws crowds

CHARLOTTE, N.C. — Revco's first Health and Beauty Expo held outside its home market drew 67,000 visitors to Charlotte's Convention Center March 30 and 31, and led to "a clear increase in sales" in this key Revco market, according to Bob Newmark, director of advertising and marketing services.

Revco drew some 100,000 Cleveland-area consumers to a similar event last May, and is gearing up for another home-market expo next month.

"It clearly has an effect on sales, both near- and long-term," said Newmark. "Another clear benefit is the excitement it raises for both customers and Revco employees."

The free event in Charlotte featured health screenings, fitness workouts, product demonstrations and giveaways, and visits by sports and media celebrities.

Revco pharmacists also staffed an advice-only "pharmacy" at the expo for patient consultations.

The two-day event was given a major sendoff with a 48-page insert in *The Charlotte Observer* before opening day. The tabloid included co-op advertising from suppliers exhibiting at the expo, as well as feature stories about Revco and the event.

NACDS plans fall session for MIS issues

ALEXANDRIA, Va. — The National Association of Chain Drug Stores (NACDS) will sponsor three separate conferences this fall where members will discuss operations issues: MIS; human resources and loss prevention; and administration and operations.

The human resources and loss prevention meeting will be held Oct. 14-17 at a place to be announced. Officials plan to announce the other two meetings' times and places at the NACDS Marketplace in June, according to Jim Huber, NACDS' vp-finance and administration.

In the past, NACDS covered these topics in one meeting, but members felt that pulls too many key people away from their companies at one time. Also, the MIS execs have felt they can achieve more with their own meeting, said Huber.

Last year, only the session on human resources and loss prevention was held; there were no workshops in 1988, after members had voted in 1987 to hold the meetings every other year.

B&E gets some Shawnee-Evans assets

LIVONIA, Mich. — B&E Merchandising Corp., a distributor of advertising and retail promotional merchandise, has agreed to acquire certain assets of Shawnee-Evans, Alco Health Services' promotional merchandising division.

B&E will take over development and sales of Shawnee-Evans' circular advertising programs.

Bud Preston, B&E president, said the move "helps both [companies] by combining buying power and consolidating distribution networks."

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Showgoers give plaudits to Affiliated/Associated

By Bruce Buckley

CHICAGO — Joe Decker began working one end of Affiliated/Associated's booth show on Sunday, and his son Jim started at the other end. Their aim: to hit every one of the more than 180 booths set up in the Chicago Hilton's exhibition hall before the vendors packed up their wares the next day.

More than 24 hours later, the Deckers met somewhere in the middle, both a little footweary but also pleased with the product information they had rounded up for later evaluation back home.

Joe Decker is president of Richardson's Pharmacy, a chain of five stores serving the bustling university town of Ann Arbor, Mich. His son Jim is the buyer of a broad array of product categories. For them the spring and fall visits to the Affiliated/Associated shows are a key connection point to old friends and new ideas and products.

"We need this show," Joe Decker told *Drug Store News*. Decker was not the only retailer who expressed this sentiment during the three-and-a-half days at the end of March and beginning of April that the New York-based buying group was in town for its semiannual merchandise show. Other chain executives, including Steve Ferguson of Douglas Drug, Jim Harrison III of Harco, Bill Baxley of Kerr and Bill Matteucci of Drug Fair Northwest, echoed that feeling.

Ferguson said that when he moved from K&B in New Orleans to Douglas Drug in

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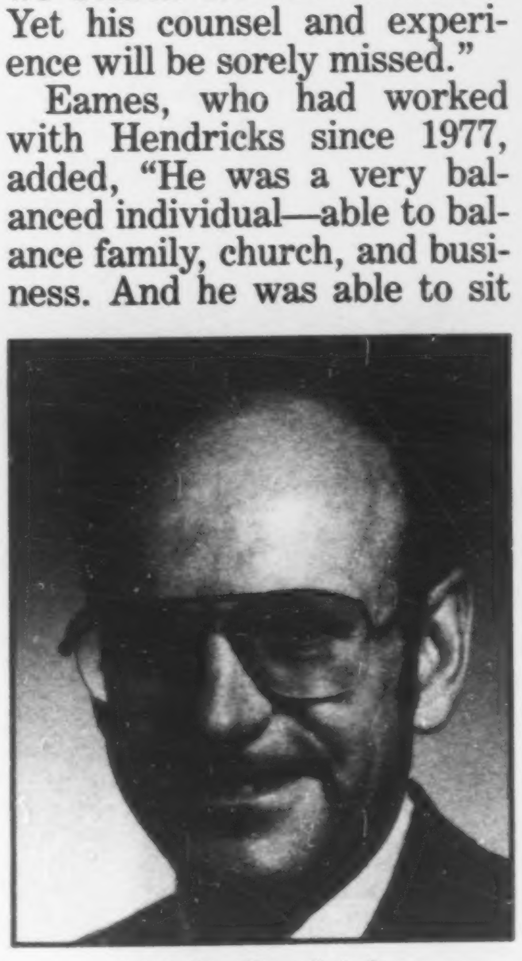
Like many chain attendees, Richardson's Pharmacy's Jim Decker (left), buyer, and his father Joe (right), president, scoured the busy exhibit floor at the recent Affiliated/Associated show in Chicago.

Calvin Hendricks, president of Bill's Drugs, dies in Calif. at 57

BENICIA, Calif. — Calvin Hendricks, 57, president and chief administrative officer of Bill's Drugs and formerly a longtime executive with Pay 'n Save Corp., died April 6 in Mount Diablo Medical Center, Concord, Calif., after suffering a stroke April 2.

"Cal brought many talents to Bill's Drugs, particularly in the financial, budgetary, administrative, and real estate areas," said Bill Eames, chairman and ceo. "He brought a number of experienced people into our organization who will be able to bridge the gap while we search for his successor. Yet his counsel and experience will be sorely missed."

Eames, who had worked with Hendricks since 1977, added, "He was a very balanced individual—able to balance family, church, and business. And he was able to sit down and help people sort out problems and find solutions. He was always very caring."


Calvin Hendricks

Hendricks joined Bill's Drugs' board of directors in 1977, when Bill's bought several stores from Pay 'n Save. At the time Hendricks was an executive with Pay 'n Save, and in 1982 became vice chairman and cfo there.

In 1986, Hendricks purchased the approximately one-third stake in Bill's Drugs that had been held by Seattle Standard, a corporate offshoot which resulted from the purchase of Pay 'n Save by the Trump Group. He joined Bill's in December of that year as president and chief administrative officer.

At the time, Eames said Hendricks "wanted to have the fun and excitement of helping another company grow and at the same time participate in the equity portion."

Hendricks was born in Centerville, Utah, in 1933 and grew up in Utah and Payette, Idaho. He declined a basketball scholarship at Brigham Young University to serve in the Air Force during the Korean War. He then attended BYU, and after graduation, joined the accounting firm of Price Waterhouse in Seattle.

In 1962 he was hired as controller by the Pay 'n Save Corp., beginning a long association with that company, which during his tenure included Pay 'n Save Drugs, Lamonts, Bi-Mart, Price Savers, and other retail businesses.

"He was one of the guiding lights of Pay 'n Save," said Walter R. Guidinger, former vp-real estate at Pay 'n Save, who worked closely with Hendricks for 18 years. "He was a very busy, energetic, interested person."

A Mormon, Hendricks was for 23 years one of three ruling members of the Seattle Stake of the Church of Jesus Christ of Latter-day Saints.

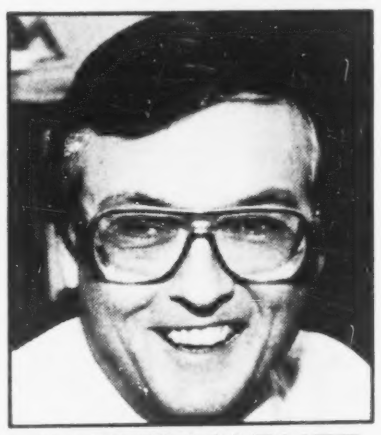
He is survived by his wife, Lona; his mother; two sisters; six children; and nine grandchildren.

Correction

In the April 9 article on NACDS, a quote from Gerald Heller, chairman of the association, was mistaken attributed to John Covert, director of communications. The quote was: "When we started our search [to find a new president to replace the retiring Bob Bolger] we thought we'd have to give up something to find the person with a strength in government that we needed. We were glad we found that someone with both, since Ron [Ziegler] had association experience. I don't think we could have found anyone with such a good grasp of the business and someone who is such a quick study as Ron. He has an unusual knack for detail."

OPINION

Buying group outlook is promising


IN THE MARKET
BRUCE BUCKLEY

In Chicago a couple of weeks ago there were a few people who seemed ready to write the epitaph for Affiliated/Associated Drug Stores, the 62-year-old chain drug buying group.

But only a few. Most of those who attended the 3½-day merchandise show at the Hilton were enthusiastic about the future of the organization and the value of its semi-annual shows. There were also a few fence-sitters.

No question that the association faces a difficult challenge as some members and vendors weigh their options in light of a growing number of competitive shows as well as the cost, in time and dollars, of continuing to participate. But there are at least two reasons that on balance, as Ed Matteucci likes to say, make the association's long-term prospects seem better than even, if not entirely rosy.

Most important, virtually all of the smaller to mid-sized chains urgently want the association to survive and prosper. For them it serves as an important conduit for product information from manufacturers who do not often give them top-of-mind attention. What's more, the association provides a familiar, comfortable forum to talk to colleagues facing similar problems and to association staff members working on their behalf year-round.

Even the larger chains, with their superior sources of information, can stand to benefit from their exposure to ideas of smaller colleagues and to items that they might not have seen at larger shows or at their headquarters.

Second, manufacturers large and small can profit from their own exposure to these highly motivated, often entrepreneurial retailers. As manufacturers' sales forces shrink in size, the impulse is to concentrate on the accounts offering the greatest productivity. The growing use of telemarketing by the largest vendors somewhat offsets the increasing neglect of smaller accounts, but shows like Affiliated/Associated's can add a productive way for manufacturers to reach a lot of retailers in a hurry. In the process, both sides gain.

Mark Twain's celebrated reaction to reading his own obituary in a newspaper seemed entirely appropriate for the occasion. There are always people ready to jump to conclusions based on inadequate information or hasty analyses. Far better to wait for things to sort themselves out before rushing to judgment.

* * *

On the eve of NACDS' annual meeting in Palm Beach, it's good to see a venerable old name returning to the ranks of active drug chains. As our upfront news story indicates, Bob Begley has put together a deal to purchase 37 Eckerd drug stores in Tennessee and Virginia. They'll be called Begley/HealthMart, in recognition of the active participation of FoxMeyer's HealthMart franchising program in the new venture.

Begley's new launch also adds a small bit of momentum to the baby chain boomlet, as previously exemplified by SupeRx of Arizona, Reliable Drug and Dick George's new venture in Chicago. And with more than 700 Revco stores on the auction block, can there be more birth announcements in the offing? It's a welcome counterpoint to the ongoing consolidation of the industry.

Chain credibility at stake on green issues

THE HUMAN SIDE
AL HELLER

Apparently fearing consumer backlash and regulatory enforcement, product manufacturers in many categories are backing off environmental claims.

In the rush to gain market advantage, some have found themselves out on a shaky limb. That's not surprising. Today's market is unsettled, unsure of the value of specific claims and even the definitions of such terms as *degradability, ozone-friendly* and *safe for the environment*.

Household brands are involved—familiar names that have spent too many years and megabucks to risk being dragged through any mud of the Green Revolution; so they'll retrench for now until claims can be justified and made safely. Other suppliers just looking to cash in on the trend will be unearthed quickly by increasingly skeptical consumers and vigilant environmentalists.

The Green Revolution, symbolized by this month's Earth Day, promises to be a wholesome phenomenon that everyone involved can feel good about while fortifying their images. *Drug Store News* has reported recently on Pay Less's campaign to manage and recycle solid waste, and become an environmental leader in Oregon.

Four other West Coast retailers, looking to short-circuit misleading claims, have now begun working with a consultant to award "Green Cross" endorsements to products that really do help reduce pollution. Fred Meyer, Raley's, Ralphs and Abco Markets feel that they and other retailers must critically assess claims and help consumers make choices.

Proactive retailers are a positive force—for America and this trade class.

If drug chains unwittingly go along with product claims that they cannot judge, they may incur the wrath of an environmentally-conscious public. If they aren't sharp about green claims, might people soon wonder about the validity of their health care claims?

Letters to the editor

To the Editor:

On behalf of the board of trustees of the New York City Chapter of the National Multiple Sclerosis Society and the many thousands with MS whom we serve, I want to thank *Drug Store News*' REX awards program for its generous contribution to the fight against MS.

Thanks to people like you, the New York City chapter can be here with assistance and understanding until that time when we are able to eliminate this devastating disease. You have our deepest thanks for the generous support your publication and your industry have provided for our work. With allies like you, I know we will be successful.

Carol M. Kurzig
Executive director
New York City Chapter
National Multiple Sclerosis Society

To the Editor:

I just discovered from reading your April 9th annual report issue that Homeland Stores, Inc. was not included in your listing of supermarket companies with pharmacies.

Homeland currently operates 106 supermarkets, of which 45 have pharmacies. Our corporate offices and distribution center are located in Oklahoma City; our stores are found in Oklahoma, Texas and Kansas.

We're a member of FMI, and alive and growing in Oklahoma.

Gerald Hines, R.Ph.
Pharmacy coordinator
Homeland Stores, Inc.

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SPECIAL SAMI REPORT

Market by market differences in H&BA seasonality patterns in major market drug stores*

(Four weeks ended July 14, 1989—unit measurement basis)

Market	Baby Powders	Baby Oils, Creams & Lotions	Contra-ceptives	Spray Deodorants	Foot Deodorant & Athlete's Foot Remedies	First Aid Antiseptics	First Aid Products	Shampoo	Eye Care Products	Shaving Creams	Razor Blades	Suntan Lotion Suntan Oil	Cosmetic & Medicated Skin Aids
New York	114	121	95	118	119	135	101	99	97	110	104	204	106
Chicago	126	106	105	103	121	136	109	121	107	102	106	173	110
Los Angeles/San Diego	89	94	92	103	102	103	114	92	94	90	109	83	95
Dallas/Ft. Worth	98	88	100	93	107	121	112	86	105	83	105	83	100
Miami	80	77	90	82	92	100	97	117	94	90	70	77	96
Boston/Providence	96	113	98	115	151	140	99	88	92	85	96	158	103
St. Louis	110	85	110	102	111	134	108	90	112	97	100	163	115
National	109	110	101	104	113	134	108	103	102	97	107	124	108

*Average 4 week period during year = 100
Source: Arbitron/SAMI

*Seasonality or growth trends by category in drug stores, national tonnage basis**

(H&BA categories with high summer seasonal invoices, year ended Dec. 29, 1989)

Category/Measure/Period Ending	1/27	2/24	3/24	4/21	5/19	6/16	7/14	8/11	9/8	10/6	11/3	12/1	12/29
Baby Powders—Pounds	91	107	88	99	90	109	109	115	133	111	85	78	85
Baby Oils, Creams & Lotions —Pounds	107	102	106	117	123	130	110	85	93	78	77	77	94
Contraceptives—Units	93	97	95	99	109	122	101	104	98	93	100	95	94
Spray Deodorants—Pounds	93	88	90	104	112	105	104	113	107	107	95	90	92
Foot Deodorants, Athlete's Foot Remedies—Units	83	82	91	99	118	112	113	123	115	106	95	87	76
First Aid Antiseptics —Pounds	93	97	91	101	91	100	134	132	93	97	90	87	94
First Aid Products—Units	91	101	94	107	112	103	108	114	105	102	94	83	87
Shampoo—Pints	95	95	103	102	97	93	103	116	100	114	98	98	86
Eye Care Products—Units	100	103	100	97	105	102	102	114	104	97	100	89	84
Shaving Creams—Pounds	117	89	89	99	95	91	97	111	96	117	105	98	95
Razor Blades—Count	99	101	92	93	94	96	107	111	101	105	111	94	98
Suntan Lotion & Suntan Oil —Pounds	94	164	281	209	151	157	124	48	22	13	14	11	12
Cosmetic & Medicated Skin Aids—Units	95	95	94	100	102	107	108	124	113	101	94	86	82

*Average 4-week volume during year = 100
Source: Arbitron/SAMI

Hot-weather seasonality affects H&BA category sales

PRODUCT TRACKING

ALAN MILLER

Of 58 H&BA categories tracked by Arbitron/SAMI in food and drug stores, 13 showed a four-week drug store index of at least 110 in one of 1989's summer periods.

Suntan lotion-suntan oil showed the highest seasonal peak, from February through mid-July, with four-week indices of 157 and 154, respectively. Baby powders rose 9 percent above the yearly average in June-July, peaked at 133 in the 28-day period ended in September, and fell back to 78 in the period ended December 1, 1989.

Seasonal peaking started earlier for baby oils, creams and lotions, and petroleum jelly. The 130 peak came in the period ended June 16, then fell back to 77 by October-November. Last year, the seasonal high of 122 for contraceptives was also registered in this early period.

Spray deodorants/antiperspirants enjoy better-than-average drug store sales from April through September, without sharp declines the rest of the year; the lowest four-week index for this category is 88 in February. The range is wider among foot deodorants and athlete's foot remedies: 123 in the period ended August 11, and the low in December.

First aid antiseptics peaked twice, at 134 and 132, in the periods ended July 14 and August 11; November was weak at 87. First aid products, including bandages, cotton, kits and swabs, reached 112 and 114 in May and August.

The best selling periods for shampoo came later in the summer, with levels of 116 and 114 for the spans ended August 11 and October 6. Eye care products, including contact lens solutions and washes, topped average monthly movement by 10 percent only in the period ended August 11. Neither shaving creams nor razor blades experienced consistent high or low periods of activity; in 1989, shaving creams reached 117 in January and October.

Market-by-market variations in seasonality

Besides reviewing seasonality patterns of these categories at the nation's drug stores, we have also investigated drug store index trends in seven geographically-dispersed SAMI markets. In order to register the fact that there are important differences in the timing of peaks and valleys of demand among markets, we have selected for scrutiny only the four-week period ended July 14, 1989. The index for each of the 13 product categories during the July period is shown, along with the national index.

> *Seasonality may be obscured by other variables. . . . This is often true when powerful new products are introduced.*

It is obvious that many of the differences in summer peaking are related to climate. In the suntan lotion-suntan oil category, for example, by the time July rolls around, many users will have purchased such products in temperate markets such as Miami, Los Angeles and Dallas. In other instances where inordinately high or low indices are seen during the July 14 period—such as the 121 level for shampoo in Chicago or the 85 level for baby oils, creams and lotions in St. Louis—special promotional activities may be a factor. In such cases, seasonality may be obscured by other variables. This is often true when powerful new products are introduced, either nationally or locally, or conversely when category volume is falling rapidly.

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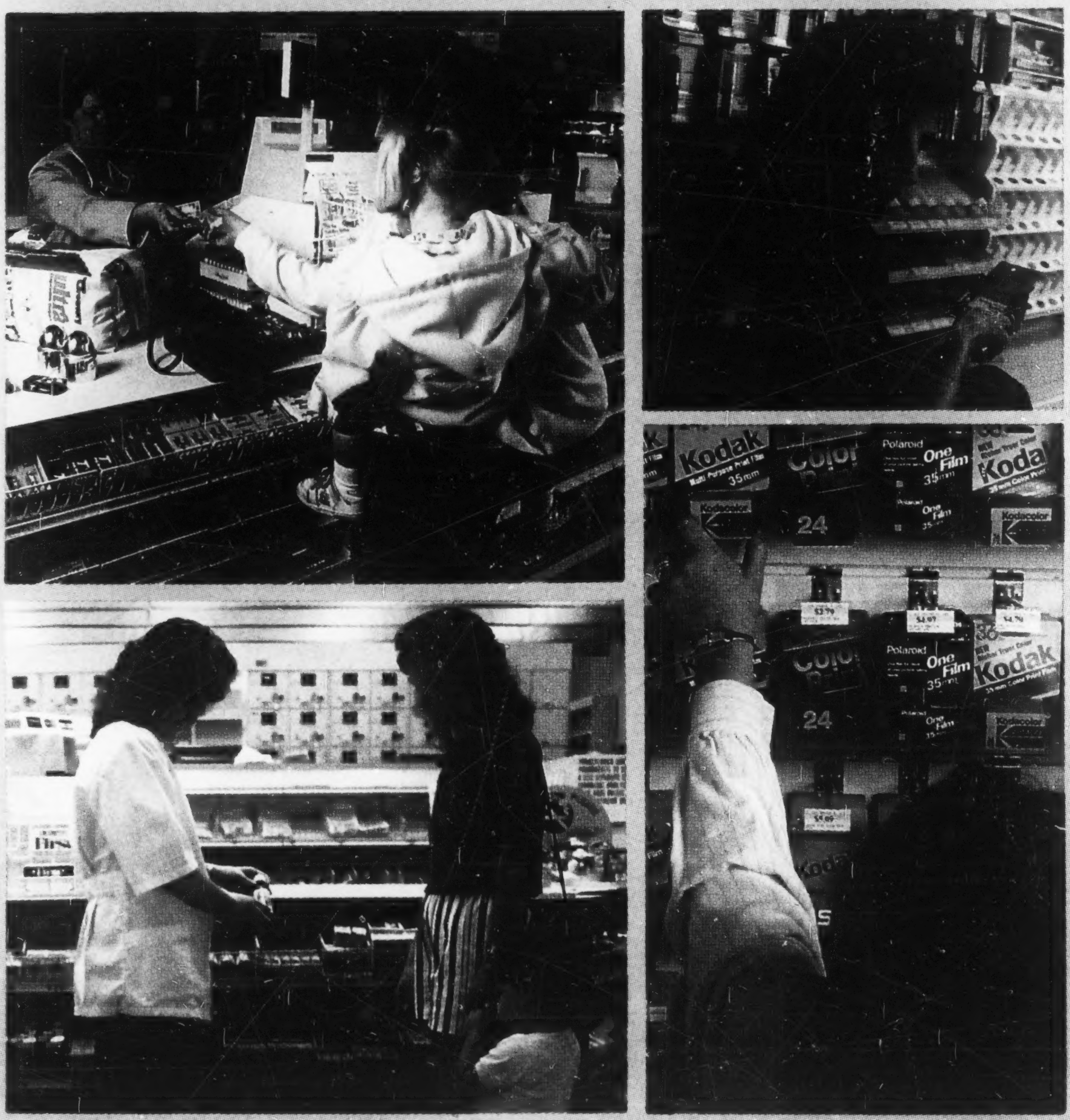
Annual Report Part II:

Chains build on core category strengths



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drug store retailing. Together with OTC proprietary drugs and toiletries, they accounted for well over half of all chain drug sales.

"Pharmacy is still the engine that pulls the train," noted new Walgreen Co. president L. Daniel Jorndt recently. He was describing Walgreens' merchandising and marketing philosophy, but his viewpoint is shared by most of the rest of the industry, as well.

The renewed emphasis on those three basic drug store categories hasn't dampened enthusiasm for other aspects of the business, however. Opportunities continue to abound for higher sales in areas like stationery, which also boomed ahead by 13.7 percent last year; videotapes, up in the double digits; and candy, which enjoyed an 11.7-percent hike in chain drug sales last year. Intensive promotion, new product development and product segmentation, and booming consumer demand drove those product areas.

There were some other stellar contributors in 1989, as well. In the broad range of general merchandise offerings, sunglasses, pantyhose and batteries all continued to reap strong gains. Cosmetics/ fragrances continued to benefit from efforts by chains like Perry Drug Stores, Pay Less Drug Stores NW and many others to reposition their beauty departments. Basic housewares and tobacco both retained a strong place in the mix.

Many drug chains also continue to cash in on the growing demand for one-stop shopping by stocking a broader selection of convenience foods, including high-margin cooler-case soft drinks, frozen foods and canned goods. Sales of soft drinks, liquor/wine, snacks and dry packaged groceries were all up at least 9 percent in 1989.

> *'Pharmacy is still the engine that pulls the train,' noted new Walgreen Co. president L.Daniel Jorndt recently.*

Drug chains eye the 1990s focused sharply on core mix

The chain drug identity crisis seems to be over.

Drug chains spent a good part of the 1980s trying to position themselves in a rapidly shifting retail landscape against a raging sea of new and resurgent competitors.

In the process, the chains were forced to look long and hard at just what kind of business they conducted. They had to make fundamental, top-to-bottom decisions about merchandising and marketing—what kinds of merchandise they were going to carry, and how they were going to distinguish themselves from their competitors. What followed was an era of experimentation, as many drug chains sought the perfect balance between a merchandise mix that was too broad and too narrow.

What forced this reappraisal was the fact that everyone else was getting into the same business, eroding the old distinctions between trade classes and challenging drug stores for every part of their business. Even the most professional aspects of retail pharmacy were no longer off-limits for mass merchandisers eager to share in the profits offered by prescription drugs, H&BA, greeting cards, and other traditional drug store items.

Supermarket chains en masse decided in recent years that the drug and H&BA sides of the business were just too important to leave to drug stores.

Drawn by high margins, the aging of the population, and the growing appeal of one-stop shopping to today's time-pressed consumers, food retailers like Giant Food, Pathmark, Kroger, Vons, and Albertson's shifted their growth strategies almost exclusively to combo store formats. They hired pharmacy experts to help perfect the drug side of the format, listened to what their customers wanted, developed giant new store designs with ample space for drug store categories, and advertised their one-stop appeal long and loud.

Discount powerhouses like Wal-Mart and K mart have also swallowed big chunks of the nation's drug store business. Deep discounters have sprung up like mushrooms after a rainshower, further roiling the competitive picture. Consumers themselves have proven a remarkably fickle group in recent years, often putting price and convenience above old retail loyalties.

Little wonder, then, that the chain drug industry has passed through a decade of turmoil and soul-searching. After years of diversification into distracting, non-core businesses and general merchandise categories that deterred from their image as health- and beauty-care providers, many chains were caught at a disadvantage by the slew of new competitors in the 1980s. All were challenged to re-establish themselves by redefining their core business and image.

For the most part, that process is largely over. Most changes in the chain drug merchandise mix at this point are evolutionary rather than revolution-

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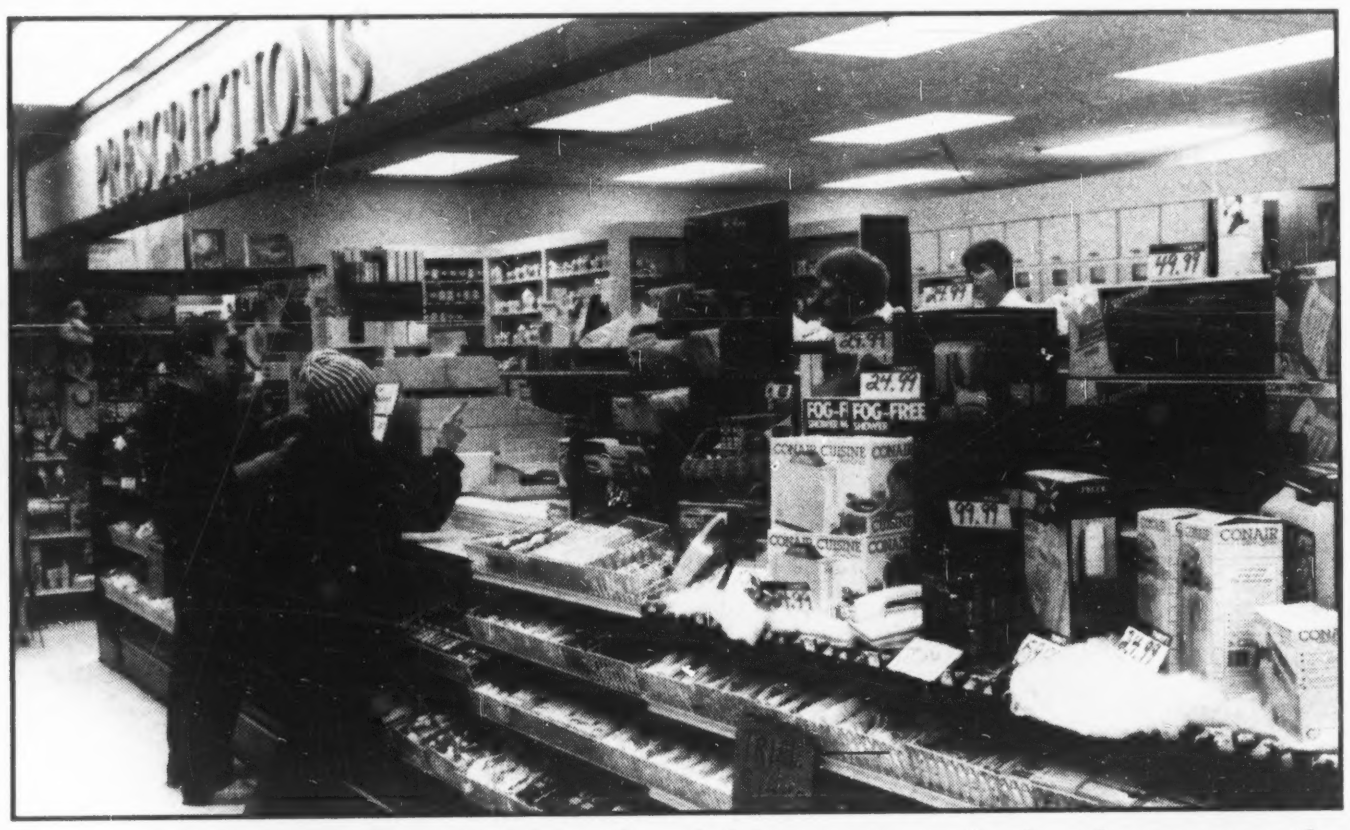

New store formats such as Thrift developed this year reemphasize pharmacy as the heart of a chain drug store, offering easy access to professional consultation.

Even the most professional aspects of retail pharmacy were no longer off-limits for mass merchandisers eager to share in the profits offered by prescription drugs, H&BAs, greeting cards, and other traditional drug store items.

Breakout of 1989 chain drug sales

Department	1989 total chain sales (add 000)	1989 % increase	% of total sales	% gross margins	Average turns
Prescriptions	$12,189,050	13.7%	30.6%	35-40%	6.5
OTC/proprietaries	5,948,174	10.9	14.9	30-35	5.0
Toiletries	4,133,627	9.6	10.4	25-30	5.0
Tobacco	2,476,311	4.7	6.2	15-30	15.3
Housewares	2,411,312	7.4	6.0	35-45	3.0
Stationery	2,056,808	13.7	5.2	40-45	4.7
Cosmetics	1,997,808	8.9	5.0	35-40	2.2
General merchandise	1,955,444	9.8	4.9	35-45	5.0
Photo/video	1,746,049	9.9	4.4	20-25	9.0
Grocery/snacks/soft drinks/beer/liquor/wine	1,660,610	8.8	4.2	15-20	5.2
Candy	1,469,380	11.7	3.7	25-30	7.5
Toys	846,124	5.9	2.1	35-40	4.0
Misc./promotional	968,112	9.7	2.4	15-20	N.A

Source: *Drug Store News* 1990 survey of drug chains

10-year sales trends

(In millions of dollars. 1985 base equals 100*, 1989 equals 137.7)

Departments	1980	1981	1982**	1983	1984	1985	1986	1987	1988	1989
Prescriptions	$3,983	$4,612	$5,105	$5,927	$6,733	$7,669	$8,475	$9,426	$10,717	$12,189
OTC/proprietaries	2,235	2,575	2,879	3,201	3,595	4,087	4,468	4,882	5,362	5,948
Toiletries	1,726	2,020	2,271	2,457	2,742	3,047	3,230	3,436	3,770	4,134
Tobacco	1,354	1,518	1,702	1,806	1,979	2,127	2,205	2,279	2,364	2,476
Housewares	1,065	1,238	1,389	1,497	1,606	1,676	2,003	2,083	2,245	2,411
Stationery	779	888	987	1,069	1,199	1,352	1,488	1,638	1,810	2,057
Cosmetics	831	976	1,107	1,205	1,352	1,481	1,605	1,715	1,834	1,998
General merchandise	893	1,035	1,146	1,227	1,337	1,416	1,212	1,287	1,780	1,955
Photo/video	680	791	891	1,001	1,114	1,235	1,294	1,425	1,547	1,746
Grocery/snacks/soft drinks/beer/liquor/wine	780	934	1,060	1,123	1,209	1,280	1,335	1,433	1,526	1,661
Candy	607	674	753	793	892	973	1,067	1,186	1,315	1,469
Toys	464	533	598	632	672	701	690	736	799	846
Misc./promotional	478	562	579	589	657	724	745	817	882	968

**Drug Store News* established calendar year 1985 as base year equalling 100. Merchandise growth shown in future census issues will reflect this index.

**Calendar 1982 and prior-year figures restated to reflect change in definition of chains from two or more to four or more stores.

Source: *Drug Store News* 1990 survey of drug chains

REVLON
Savon

Counterclockwise from top right: Appealing to women shoppers is always in fashion, as done by Sav-on using well-lit cosmetics wall, name brand signage, wide aisles and floral displays. •Home office growth has been a bright spot for drug chains that assort broadly, price sharply and stress quality. Convenience is the big edge, though combos and specialty discounters are fiercely chasing this business. •Food is one of a drug store's main weapons in capturing the fill-in visit between major supermarket trips. •More frequent replanograming of health aids and other categories enables merchants to better reflect current trends and build shelf productivity.

Chains starting 1990s focused sharply on core mix

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ary—a matter more of fine-tuning than of wholesale additions or deletions of departments. The drug chains and independents that weathered the competitive onslaughts and social transformations of the '80s face the same challenges in the '90s, but they are far more streamlined and focused than they were a decade ago. Most of them have rekindled the core aspects of their business—pharmacy, H&BAs, stationery, convenience foods, to name a few—and have repositioned themselves in those areas by building on and marketing the fundamentals that continue to drive the drug store business: convenience, service, value, selection and a strong emphasis on professionalism and health care.

Many chains also have a valuable new tool in their efforts to finetune the merchandise mix, with the addition of point-of-sale systems that capture detailed item movement information. The industry has also reaped big gains in the pharmacy department with systems that cut down on third-party-billing headaches, build detailed patient profiles, and free up pharmacists for patient counseling.

Efforts pay off

Efforts by drug chains to distinguish themselves from their competitors and refocus on their core merchandise categories continue to bear fruit. Overall chain drug sales were up a healthy 11 percent last year, with prescription sales leading the way with a powerful 13.7 percent gain. Thanks to the aging of the population, continued manufacturer price hikes and a greater reliance on pharmaceuticals in the health care spectrum, pharmacy continues to account for a growing share of total sales at many chains, including Walgreens, Arbor, Perry and Pay Less NW. Industrywide, the Rx counter now produces nearly a third of total store revenues.

Drug chains also racked up big gains in OTC/proprietaries, stationery, toiletries, cosmetics, general merchandise and photo in 1989. Margins for some categories have been squeezed by competition, but chains are holding their own in sales of film, blank videotapes, candy and other categories against strong competition.

Despite an overall trend back to basic core categories in recent years, many chains are finding new opportunities in convenience foods, which drove ahead nearly 9 percent last year. Walgreens, for instance, is putting c-food departments in hundreds of stores where direct competition from supermarkets is minimal. Many chains now stock cooler cases, including Perry, SupeRx, Snyder and Osco.

The industry is also beginning to respond to growing concerns about the environment. Biodegradable products and packaging made from recycled materials are beginning to show up in a few chain drug stores, including those of Pay Less NW.

Cosmetics sales up 8.9% to nearly $2 billion

Deep discounters, mass merchants, and combos faring the best

Chains that cultivate a department-store image and offer service and a broad assortment of franchised items attract more traffic.

Looking beyond modest advances made by cosmetics and fragrances in chain drug stores the past year, buyers are spotting strong growth segments: men's fragrances, foundations, mascaras, eye and lip liners, nail treatments, bath preps, and eye/face creams.

Overall, cosmetics grew 8.9 percent to nearly $2 billion in chain drug stores in 1989. Deep discounters, who are making increasingly stronger presentations, report their category sales are up in the double digits. Many manufacturers indicate their sales gains at deep discounters, mass merchants, and combos are far more dramatic than at conventional chain drug stores.

One example from a major supplier: more than 30-percent gains at deep discounters and other trade classes, compared with estimated 10-percent gains at conventional drug chains. His sales analysis indicates that K mart, Wal-Mart and other mass merchants have built their combined cosmetics/H&BA sales to about a 10 percent share of all commodity volume, up from virtually zero five years ago.

Combos up dramatically

He also estimated that combos now generate 15 to 20 percent of all his cosmetics/H&BA commodity volume, twice the rate of five years ago.

Many buyers confirm that their stores are feeling the effects of this shift. That's why so many chains are trying to upgrade their cosmetics departments, add more upscale and diverted department store lines whenever possible, improve lighting, provide more and better service, and price more competitively.

More chains are also organizing market research groups with consumers to learn where women are buying their cosmetics and fragrances, why they choose one store over another, and what they would like drug chains to do to make their stores more attractive to shop, both for cosmetics and the other core drug store categories.

Many of the major chains like Walgreens, Eckerd, Peoples, and Revco are using information from these focus groups to change the way they merchandise their stores and operate the department. In addition to "boutiquing" the department to make it more attractive and more like a department store, these chains are also investing in improving their overall operations, usually by hiring and training cosmeticians and cosmetician supervisors.

They are also trying to be the first in their markets to obtain and advertise hot new items, and they're doing everything they can to bring more department store lines into their mixes. To this end, they're buying more product from diverters and trying to arrange to go direct with key prestige vendors.

"One of the reasons we're not getting growth as strong as it has been in the past," said Don Gross, vp of marketing for Genovese Drug in New York, "is because many of the consumers we survey tell us they prefer to buy the franchised merchandise we can't get."

Continued on page 76

1989 cosmetics department productivity in chain drug stores

Category	1989 total sales (add 000)	1989 % increase	% of category sales
Fragrances	$ 586,415	9.0%	29.4%
Toilet water/cologne	458,810	10.2	23.0
Perfumes	96,288	4.4	4.8
Body sprays	31,317	7.6	1.6
Budget/pegged cosmetics	473,844	9.9	23.7
Nail polish/nail preps	205,555	9.3	10.3
Bath preps	173,402	9.5	8.7
Lipstick/lip color	165,115	7.4	8.3
Eye makeup	158,724	8.5	7.9
Facial treatments	124,016	7.5	6.2
Make-up, powder, cream/liquid	110,737	7.0	5.5
Total	$1,997,808		100.0%

Source: *Drug Store News* 1990 survey of drug chains

1989 cosmetics department highlights in chain drug stores

Chain drug cosmetics sales	$1,997,808,000
1989 percentage increase	8.9%
Percentage of total chain drug sales	5.0%
Typical gross margins	35% - 40%
Industry profit yield from cosmetics last year	$699,232,800 - $799,123,100
Average annual department turns	2.2

Source: *Drug Store News* 1990 survey of chain drug stores

Promos on brand 'families' are eyed to increase basics

Many buyers and cosmetics manufacturers said it will be more necessary than ever for drug chains to aggressively promote all their key areas to pull traffic into their stores.

Even as chains start to address the problem of traffic, they are fine tuning their cosmetics presentations to get more impulse sales from the wall rather than from prepacks. In an effort to build wall business, many chains are cutting back on the number of off-shelf pre-pack promotions. Buyers will be "more selective" about the pre-packs they do authorize, and more concerned with handling the promotional business in a way that will help build the sales of basic stock.

Line events emphasized

Starting in May, June, or July, many buyers will begin advertising more line events rather than individual items. As they cut back on the number of pre-pack displays, they will be running more events to drive people to the wall.

This means there will be less emphasis on in-and-out shades or product packs and more emphasis on

Continued on page 76

Drug chains are experimenting with promotions that bring customers to the cosmetics wall and expose them to many offerings.

Drug chain cosmetic sales near $2B mark

Continued from page 74

One source estimated that this past year, diverted designer fragrances accounted for about 20 percent of all mass drug store fragrance sales. In deep discount chains like Drug Emporium and Phar-Mor it was closer to 40 percent, the source said.

"That's one of the reasons sales are soft for mass women's fragrances," the source said. "Women are trading off the mass brands to buy diverted fragrances whenever they can get them at discounted prices."

Many chains report that their cosmetics growth rates have slowed, but not quite as badly as they have in women's fragrances.

Chains like Drug Emporium, Phar-Mor, and F&M are all experiencing 'dramatic" increases in cosmetics sales.

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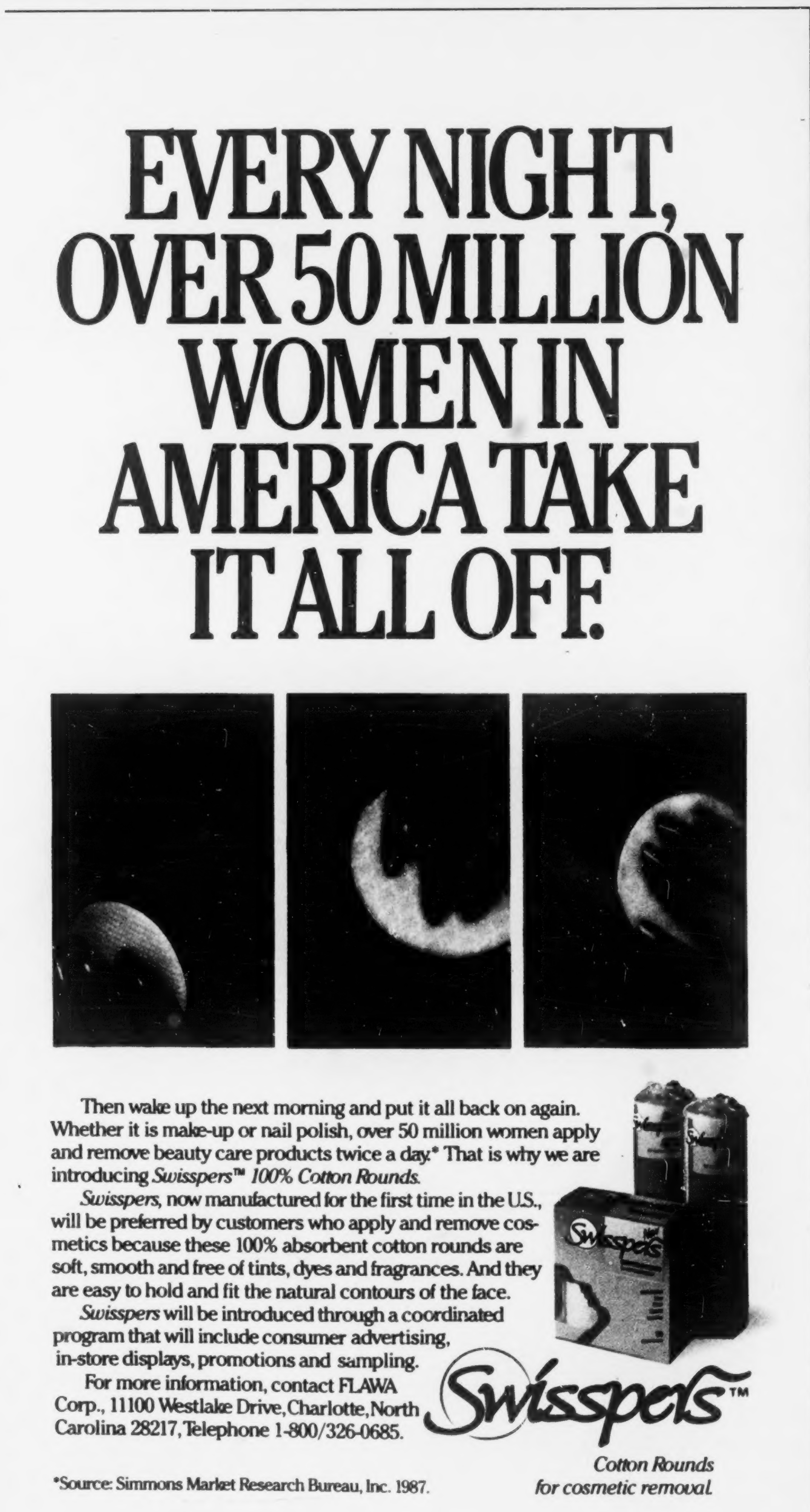

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Cotton Rounds for cosmetic removal

*Source: Simmons Market Research Bureau, Inc. 1987.

Service is the byword in cosmetics, with personalized attention making customers more loyal to the store, buyers said.

Brand 'family' promos eyed to increase basics

Continued from page 74

strategies like reduced pricing, cents-off coupons, or on packs that focus on a entire family (manufacturer) segment, like all Maybelline mascaras or all Cover Girl shadows, for example. Buyers hope this new strategy will increase turns for their everyday business while cutting back on the time and costs involved in handling returns.

If it works, it could also create a much healthier everyday business for chains. As several buyers pointed out, a strategy that drives customers to the wall instead of to an isolated pre-pack on a display could hype sales.

"If we're advertising all Maybelline mascaras at 30 percent off and we get women to come to the wall, they'll be exposed to everything else Maybelline makes as well as to L'Oréal, Revlon, and all the rest of the product we have to offer," one source said.

A few chains are revamping their cosmetic planograms for seasonal promotions. Instead of displaying these promotions off the shelf, Peoples is putting them right on the wall next to its basic stock. Like advertising a line, the plan is to use the promotions to bring more people into contact with the wall, and build day-to-day sales.

If this strategy works, buyers should be able to get a higher-ticket sale because instead of buying just one item on sale, customers will be exposed to related product, which may generate higher incremental or impulse sales.

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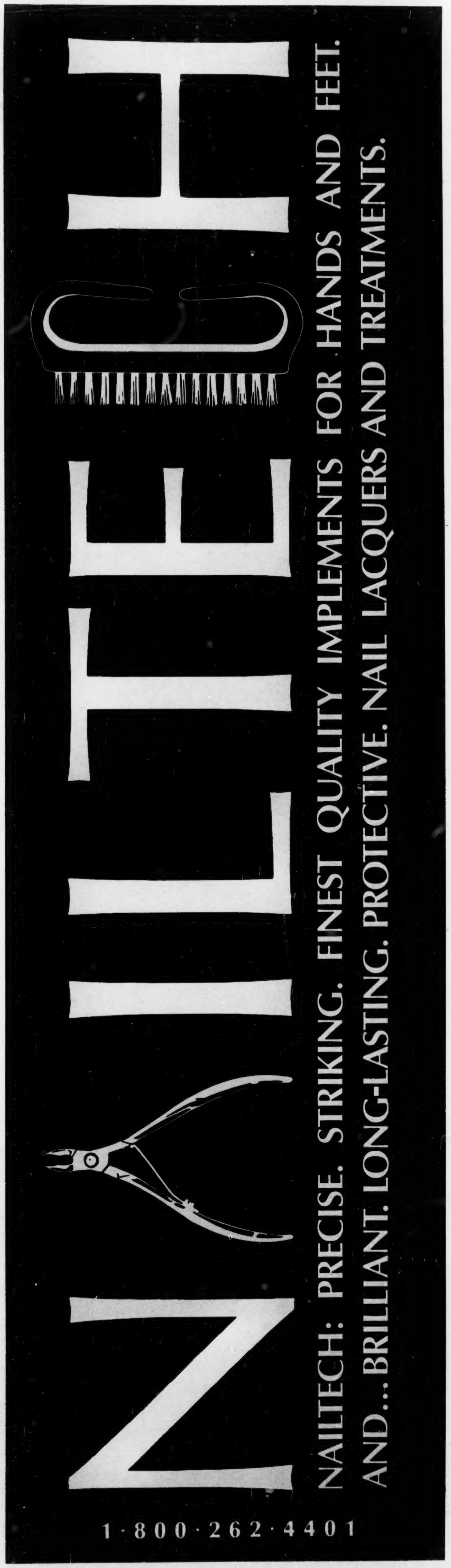
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Drug chain cosmetic sales near $2B mark

Continued from page 76

Some traditional chains like Eckerd, Arbor, Longs, CVS, Perry, and Peoples are advancing more rapidly than in 1988, but buyers for many other chains said color sales aren't quite that strong.

Chains with stronger growth attribute it to the changes they have made in their cosmetics programs, especially the investments they made in enhancing their cosmetics departments.

Chains like Peoples, Perry, Revco, Eckerd, K & B, and others have worked hard to improve all facets of their cosmetics departments, from service through ambience, presentation, and product mix.

Ed Kelly, Eckerd's vp of H&BA merchandising, said his sales are stronger "across most categories," and he expects the trend to continue.

Most buyers said their best growth is coming from mascaras, foundations, liners, bath preps, franchised creams and lotions, and nail care. The latter segment's increases are primarily in nail treatments and some color lines.

In categories like foundations, mascaras, franchised creams and lotions, liners and nail treatments, however, there have been a lot of new launches in recent months. Some have been innovative or multi-beneficial, like Factor's No Color and the extra-thickening mascaras from L'Oréal, Maybelline, Clarion, Factor, and Aziza.

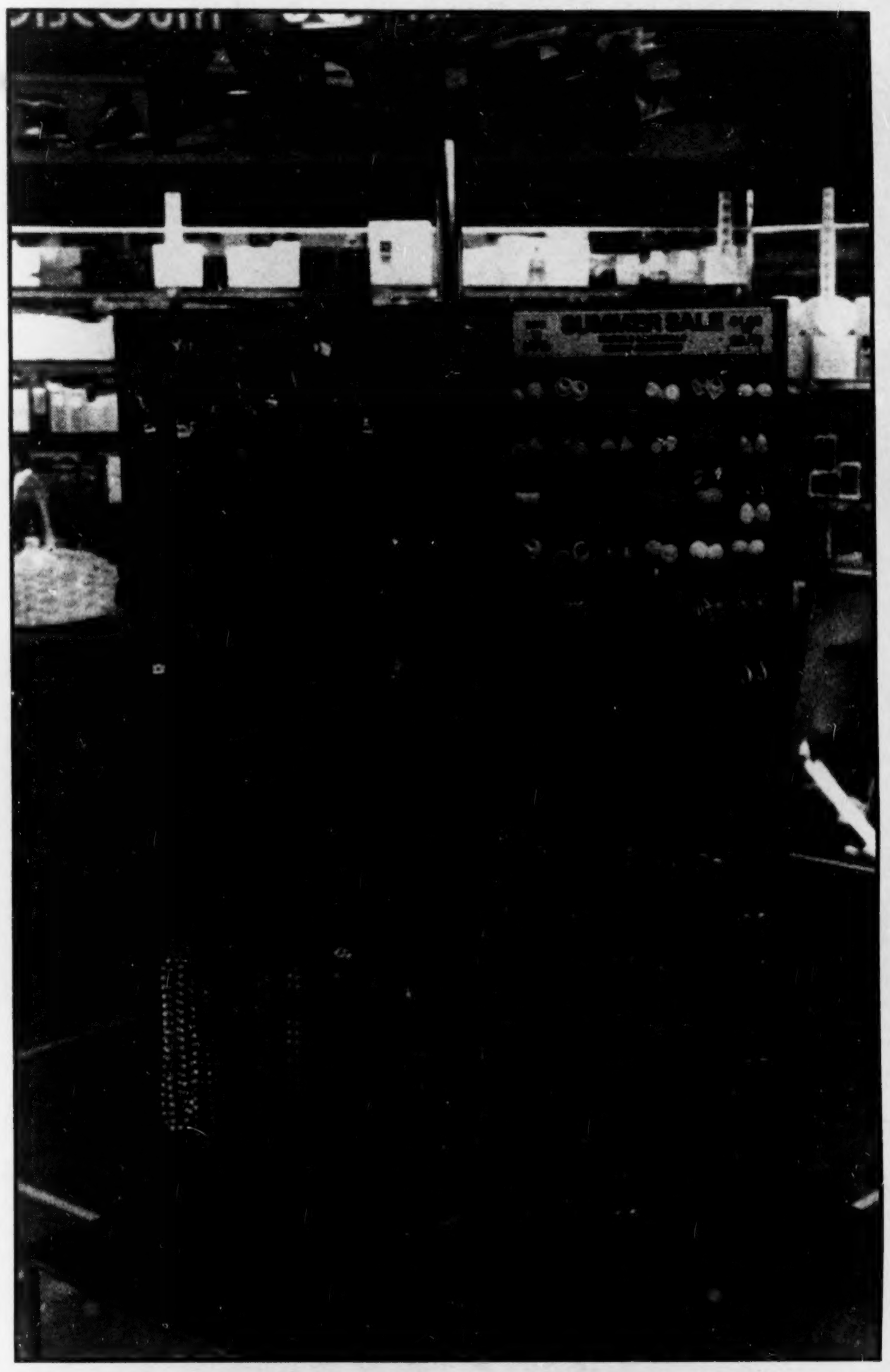
Intros drive sales

Most buyers said that in categories where there has been a lot of major new product activity in the past year, their year-to-date sales are up.

Face makeup, for example, is showing growth in most chains. Several buyers said it was partly because Max Factor's new line, New Definition Makeup, is doing exceptionally well. L'Oréal's Mattique, launched last year, is also doing very well, as are Revlon's repackaged face makeups.

Certain lines are also outperforming the category. Most buyers said they were still seeing good growth for Cover Girl, L'Oréal, Almay, Factor and Revlon.

In California, Denise Boyer, cosmetics buyer for Longs, said she was seeing good growth in Physician's Formula cosmetics as well.


Arbor Drug is among chains that dramatically increased jewelry sales by improving the display and the merchandise assortment.

Bath Products
The explosion of bath has many chains giving the category its own high identity, as seen in this Drug Emporium.

However, buyers cite an overall softness in cosmetics this past quarter over what occurred in 1989, which they attribute to intense competition, fewer new product introductions, and a late Easter

This year and for the much of last year, chain drug buyers have spent a great deal of energy aligning inventories, returning old or outdated merchandise, and handling returns. This made it harder for stores to get new merchandise out or new displays set up.

On the brighter side, the pressure of competition has caused many chains to identify target markets and reach new customers. This year many chains are talking about targeting teens, grandparents, and depart-

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1989 toiletries department productivity in chain drug stores

Category	1989 total sales (add 000)	1989 % increase	% of category sales
Facecream/skin care	$ 593,235	18.8%	14.4%
Deodorants	458,075	9.7	11.1
Men's toiletries	443,368	10.8	10.7
Shampoos	404,437	3.3	9.8
Hair color	344,408	2.6	8.3
Ethnic (incl. black cosmetics)	273,012	4.1	6.6
Rinses & conditioners	256,865	6.3	6.2
Body creams & lotions	197,170	16.5	4.8
Razors/disp. blades	184,422	8.7	4.5
Hair sprays	177,087	11.6	4.3
Hair accessories	158,085	12.9	3.8
Suntan/sunburn	111,970	11.6	2.7
Sun protection	107,532	17.2	2.6
Styling aids	86,244	9.8	2.1
Shave creams	66,922	12.8	1.6
Perms/straighteners	27,910	3.3	0.7
Depilatories	14,323	10.7	0.3
Miscellaneous	228,561	6.3	5.5
Total	$4,133,627		100.0%

Source: *Drug Store News* 1990 survey of drug chains

Deodorant and shower product sales are booming, say buyers, who credit promotions, new products, and America's active lifestyle.

With trade-ups' help, toiletries increase 9.6%

Increased competition has made selling toiletries harder for many traditional drug chains. They find themselves banging heads with food and mass merchandise chains and deep discounters, which regularly promote or display the best-selling and most-sought-after brands at extremely low, competitive prices.

However, the overall category did continue to grow in the chain drug industry in 1989, up 9.6 percent from a year ago to $4.13 billion, according to *Drug Store News'* latest survey.

Some segments within the category did exceptionally well in '89. Sales of professional and premium-priced hair care brands increased as drug stores tried to trade customers up to the higher-priced products. Many chains revamped their planograms to group the products by families to further attempt to generate trade-ups.

Skin care items popular

Face, hand, nail and body skin care lotions were popular, both with the mature woman who has long been the category's mainstay, and with a growing number of teenagers concerned about how they will appear later in life. Skin cleansers and sun tanning/sun protection products were also popular, as people tried to care for their skin now and protect it against the ravages of time for the future.

Sales of children's grooming products also increased. These were funded for the most part by aging, affluent baby boomers who will purchase entire lines, feeling that nothing is too good for their offspring. These same over-stressed parents helped the bath preps segment, as they bought bubble and mineral baths to soak away their own cares and help them relax.

Another important trend concerns the use of natural ingredients and companies that have environmental integrity. Buyers said that manufacturers committed to making products that use ingredients and packaging that is sensitive to the welfare of the planet and those that don't abuse animal rights are the wave of the future.

Trade-ups was the by-word of toiletries in 1989. In both hair care and skin care, there was a definite move to organizing planograms by price points and brands in concrete efforts to trade customers up and attract them to the premium and semi-professional lines.

Drug Emporium, Peoples and Perry have hair care planograms that group the low-priced or value brands by family. That section then flows into a collection of mid-priced brands and then higher-end brands. Most planograms usually end with a section for such prestige and semi-professional lines as Salon Selectives, Jheri Redding, Pantene, Vidal Sassoon, La Coupe, Infusium, TRESemme and Redmond.

New Peoples planogram

Peoples Drug implemented its new hair care planogram in January. The set now presents every brand by family: all Flex together, all Studio Line together, and all Salon Selectives together, as examples.

"We did it because we felt it was just the most logical way for consumers to shop," says Vicki Williams, Peoples' vp of cosmetics.

"I think this is the way consumers buy hair care products. The way we were merchandising hair care was a hodge podge. Shampoos and conditioners were in one place, gels and mousse were in another place, and hair sprays were somewhere else. But people don't shop hair care by department; they shop by brands."

However, this approach isn't being followed by chains across the board. Although more chains are starting to include companion styling aid products in the same family set with shampoos

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1989 toiletries department highlights at chain drug stores

Chain drug toiletries sales	$4,133,627,000
1989 percentage increase	9.6%
Percentage of total chain drug sales	10.4%
Typical gross margins	25% - 30%
Industry profit yield from toiletries last year	$1,033,407,000 - $1,240,088,000
Average annual department turns	5.0

Source: *Drug Store News* 1990 survey of drug chains

Sales of skin care products, both moisturizers and cleansers, are trending upward, with women convinced of the beneficial effects of the products.

Drug stores' toiletries byword is 'trade-ups'

Shaving products are a solid, basic drug store category. Formulas that soothe or moisturize the skin are particularly popular.

Continued from page 85

and conditioners, the approach changes when space is a problem or when chains are focused on other priorities. Then, it's still not uncommon to find all shampoos and conditioning brands together in a generic set, and then all the styling aid products together in the style section of the planogram.

At Genovese Drug in New York, cosmetic buyer Stephanie Hayter is working on a super planogram that will put all the skin care and franchised lines together.

Wall or gondolas

In stores where she can find the space, she plans to test it on the wall. In stores where cosmetics can't afford to give up wall space, she will merchandise it on gondolas, probably in the first adjacent toiletries aisle.

"If you take Olay and put it in a super set with a lot of other skin care items including the franchised brands," she says, "you might be exposing that user to a whole lot of product they're not familiar with. So if we had skin care that close to cosmetics, they could depend on the cosmetician to answer any questions. And, I think we would get impulse sales as people decide they're ready to try something new."

SupeRx's cosmetics merchandiser, Mike Russell, also believes that putting franchised brands in with mass brands will give customers a chance to trade up to the more expensive franchised lines. By merchandising all skin care together and giving the planogram a more organized presentation, Russell thinks it may be possible to generate annual growth of 15 to 20 percent or better.

Retailers polled said that the family concept doesn't extend to hair color and perm products because the synergism just isn't there. They explained that these categories serve such a specific need that consumers don't even think of buying a L'Oréal shampoo just because they buy L'Oréal color, or Condition shampoo because they buy Clairol color.

However, customers who color their hair or perm it will look for cleaning, conditioning and styling aid products that are specially formulated to their particular hair care needs. This has led to strong growth in these types of specialty or niche-specific products. Recently there have been launches targeted at women with permed or color treated hair, and those who want to enhance their hair's shine and sheen.

Other specialty segments, however, have had slower growing. Except for Pantresse's Folicure, which has done very well in its thin hair niche, other products geared to men or women with thinning hair have found the going kind of slow. Buyers think these lines will probably catch fire over time, but no one knows how much time it will take to build the category.

Men's hair color, on the other hand, is showing above-average growth. Combe's Grecian Formula and Just For Men are still the strongest brands, but Clairol seems to be attracting new users to Option.

Relaunched brands continue to prove that a little extra marketing support goes a long way in courting consumer attention. Popular and established value-priced brands like Break and White Rain are doing very well in the wake of recent face lifts. The early reports on Clairol's Condition is that the repackaging and relaunch seems to be a good move, although the jury is out on how much the new look can hype the shampoo/conditioner sales once they hit stores early this summer. Revlon's restage of Clean 'n Clear certainly hyped sales, at least for a while.

Can't forget the price

On the other hand, price is still important. No one thinks the relaunch of Flex has been super-successful; some buyers say the relaunch may have hurt Flex because price points went up. Buyers also believe that Revlon tried to reposition Flex as a higher-priced line to create a moderate-priced niche for its new Internationals line. If that's the case, the strategy may have been ill conceived because most buyers say Internationals isn't doing much. The buyers think the line is too vaguely positioned and too confusing for consumers to understand.

Certainly in today's market, a clear position helps. So do clear product benefit statements and packages that are environmentally safe.

At this year's International Hair Care Show in New York, which is an exposition for salon operators, there was a tremendous emphasis on products that come in packages that are environmentally safe (like non-aerosol sprays that don't threaten the earth's ozone layer), on products that are not made with oils or animal fat, and products that were not tested on laboratory animals. Some buyers think these issues will soon filter down to the mass market consumer.

Natural-ingredients popular

Natural-ingredient formulas also show promise, as do fruit-scented formulas. Popular scents include watermelon, coconut, apple, and lemon. Citrus ingredients are also turning up in many new launches as sheen enhancers.

The word aloe is magic right now. If it's on the product package, it almost guarantees the item will sell. Mennen is targeting both babies and their mothers as potential users of its latest Baby Magic line extensions. The new formulas have aloe as an ingredient, which should make the line very attractive to women who have dry or easily irritated skin.

The sensitive-skin category is still showing above-average growth. Since Olay launched its sensitive-skin formula over a year ago, total category sales are up almost 200 percent for this segment.

Sun care and bath are the other two strong growth segments in toiletries. At Peoples Drug in Washington, sun care buyer Terry Lehman reports his sun protection sales have been outpacing suntan sales for the past two years. The bulk of his protection sales are for SPFs of 15. Lehman says just about every SPF 15 sells well.

At Perry Drug in Detroit, Scott Gorley, assistant vp of H&BA, says he sees the category going more and more to lotions and sun protection brands.

"It's a healthier American we're dealing with today—more aware of the problems from too much sun exposure," he explained. "We've taken space away from oils to give it to lotions and protection products."

for your next prescription.
50% off Sunglasses EVERY DAY

Because deep discount chains have the traffic and space to mass display product, their toiletries sales are showing double-digit growth.

Home office pads bottom line in stationery

Home office supplies, picked as one of the 10 hottest segments for 1990 in a *Drug Store News* survey released in January, spearhead growth in drug chains' stationery/home office departments.

Many chains have responded to the increasing number of consumers working out of their homes—a projected 36.8 million home workers by 1992, or almost 29 percent of the workforce—by expanding their home office sections. Some have reaped double-digit sales increases as a result.

Chains with stringent space constraints sometimes opt to broaden their selection rather than physically increase space for home office products, and many are grouping all home office merchandise together into a section distinct from the rest of the stationery department. This is being done so customers "don't have to search among the Snoopy folders for home office items," reasoned one buyer.

Fashion is important

Drug chains often look to fashion in home office and school supplies to differentiate them from the competition. A growing number also use warehouse pricing and small bulk packs of legal pads, index cards and other heavily-used items to attract the home office consumer. As one merchandiser pointed out recently, customers prefer to buy six legal pads rather than just one, but "not a whole pallet."

While such items as file folders, business envelopes and note pads are the bread and butter of the home office segment, many chains, especially those operating in suburbs, find customers are willing to pay for better quality and fashion upgrades.

Some have added or are considering adding computer supplies and fax paper to their mix, but others remain unconvinced. Several buyers report they stock computer paper in order to have a well-rounded selection or because they expect the business to grow eventually, rather than because sales justify it currently.

Advertising schedules

Many chains include some stationery items in almost every ad, with tax time a particularly good opportunity to promote home office supplies and let consumers know they're in this business. Some buyers maintain that tax-time advertising should start as early as January and continue right up to taxpayers' day of reckoning.

While a few chains report feeling the impact of specialty office supply megastores, others say their target customers differ: specialty stores such as Staples aim for the small- and medium-sized office customer, while drug chains target the home office worker.

The school/home office category is a year-round, profitable area for drug chains, many of whom report gross margins of 40 percent to 50 percent and average turns ranging from four to double digits.

At drug chains, school/home office had the largest increase in sales—16.2 percent—of any segment in the stationery department for 1989 over 1988, and represented 30.9 percent of total category sales in 1989, second only to greeting cards' 35.2 percent.

One interesting point made during the Back-To-School seminary in February co-sponsored by *Drug Store News* was that the whole stationery/home office department often leads other categories in fashion looks, colors and licenses. (The Back-to-School fad this fall appears to be neon, even in backpacks.)

1989 stationery department productivity in chain drug stores

Category	1989 total sales (add 000)	1989 % increase	% of category sales
Cards	$ 724,611	13.9%	35.2%
School, home office	634,591	16.2	30.9
Books & magazines	303,645	11.4	14.8
Writing instruments	129,475	12.7	6.3
Gift wrap	113,372	8.9	5.5
Social stationery	77,030	11.1	3.7
Disposables/party supplies	59,875	9.9	2.9
Art supplies	14,209	8.3	0.7
Total	$2,056,808		100.0%

Source: *Drug Store News* 1990 survey of drug chains

1989 stationery department highlights in chain drug stores

Chain drug stationery sales	$2,056,808,000
1989 percentage increase	13.7%
Percentage of total chain drug sales	5.2%
Typical gross margins	40% - 45%
Industry profit yield from stationery last year	$822,723,200 - $925,563,600
Average annual department turns	4.7

Source: *Drug Store News* 1990 survey of drug chains

The category also is a major beneficiary of a trend among consumers—especially home office customers, but also high school and college students—to become better organized.

And the consensus among stationery buyers seems to be that there is no reluctance among consumers to trade up for perceived value in school and home office supplies.

Buyers of school supplies generally approach fashion on a promotional basis, with the Back-to-School season the main opportunity. "Back-to-School is fashion time; the rest of the year, it's not too important," said one buyer. While stationery merchandisers may look to in-and-out promotions for fashion statements, many say they gear their everyday program to the basics. However, one merchandiser added, "Although fashion isn't a major part of the business, it's still a meaningful part."

Although this year's Back-to-School show abounded with the latest licensed characters, a number of buyers were loathe to venture beyond such standbys as Garfield and Mickey Mouse, recalling getting stuck with a faded fad in the past.

Writing instruments sales

Writing instruments also showed good gains in 1989 at drug chains, with sales up 12.7 percent over 1988. The disposable fountain pen at under $5 was a popular item, and several writing instrument manufacturers generated excitement with eye-catching colors and designs and high-voltage, space-efficient packaging.

Although not a major factor for most chains' stationery departments, arts and crafts supplies is a segment with real potential, many buyers report. They see items for preschoolers as especially promising, in light of the increasing number of working mothers and the consequent upsurge in day care centers.

With sales up 14%, chains create greeting card boutiques for impact

In Walgreens, they're up front near the entrance; in Douglas Drug, they're in back near pharmacy. Greeting cards sell, whether they're positioned to draw traffic through the store or in a prime location for impulse purchases.

The card department represents the largest piece—35.2 percent—of the stationery category sales pie in drug chains, and sales increased almost 14 percent in 1989 over 1988.

While the trend in the past few years has been to move cards, wrap and party supplies to the front of the store, a more recent trend is toward an increased number of shorter runs, creating a boutique effect, rather than long valleys.

More chains now are promoting greetings cards in ads, taking advantage of high selling periods like Christmas, Mother's and Father's day, Valentine's Day, Easter, Halloween, St. Patrick's Day, graduation—the list seems to get longer by the year. Some turn the excitement up a notch with giveaways or specials on gift-type items with card purchases.

While holidays, birthdays and other special occasions dominate the business, greeting card manufacturers are responding to societal and consumer trends with a profusion of new nonoccasion lines.

The growing number of working women and Americans' increased mobility has made it more difficult for people to maintain relationships, and greeting card companies are introducing lines that address their need to communicate thoughts and feelings, such as support for people facing difficult situations. Recent card lines address the juvenile market, mature adults, romantic relationships and parent-child relationships, for example.

In addition, vendors are cultivating niches including the nondenominational religious markets, various ethnic groups and the inspirational market.

Alternative cards and wrap reflect lifestyle trends

- Alternative cards represent 25 percent of the greeting card market.
- Alternative cards' retail sales amount to $660 million.
- More than 50 percent of alternative card purchases are impulse.
- The juvenile market is growing, with the number of children age 1-12 expected to hit 44 million by the end of 1990.
- Relationship-based cards—romantic relationships, keeping in touch with friends and relatives, inspirational cards, cards for mature adults and more—represent a growing trend in alternative cards, in response to changing communication needs.
- The percentage of male card shoppers has grown from 8 percent in 1984 to 12 percent today. Moreover, 25 percent of alternative-card consumers are male.
- Time-saving alternative gift wrap—gift bags and boxes—is on the upswing. Everyday wrap sales comprise about 40 percent of the gift wrap market and are growing 5 percent to 7 percent a year. Everyday wrap includes traditional wrap, which accounts for about 80 percent of this market, and alternative wrap, which accounts for about 15 percent. The alternative wrap market is growing 20 percent to 25 percent annually.

Source: American Greetings

Drug chains in thick of photo fray

The photo department remains a hotly contested, crucial business, as drug chains fight to maintain their slim lead as the nation's top choice for photofinishing.

Chain operators are contending with white-hot competition in the photofinishing market, much of it coming from the roughly 16,000 one-hour photo labs that have sprung up in the U.S. over the past decade. According to the Photo Marketing Association, drug stores held a slight edge as the nation's top outlet for photoprocessing in number of rolls developed in 1988, the last full year for which figures are available: a 23.8-percent share, with stand-alone mini-labs close behind, at 21.1 percent.

Meanwhile, supermarkets and discount stores reap steady gains in photoprocessing market share as they promote the service more aggressively and add in-store labs.

"While all outlet types experienced actual roll-count increases [in photofinishing], only discount stores and supermarkets experienced growth above the market average," the PMA noted in its last industry report.

One example: Smith's Food and Drug Centers, based in Salt Lake City, finished 1989 with 15 in-store mini-labs, and will probably double that number this year, according to a company spokesman. "The good margins are in developing, but it's a very competitive business," he told *Drug Store News* recently.

Most drug chains, meanwhile, remain cautious about the feasibility of in-store mini-labs. Despite big improvements in mini-lab technology over the past few years that have eliminated the need for special plumbing and cut down required space significantly, most chains have yet to try the concept, or are testing in-store labs only on a small scale.

One major exception: Eckerd Drug, which has put Express Photo one-hour labs into 130 of its stores in Florida and Texas and reached enough of a "critical mass" with that approach to make it profitable. "We weigh a lot of criteria when putting them in, like demographics and location," Eckerd president Harry Lambert said.

Other chains which have waded slowly into the in-store processing business include Longs, Genovese, Pay Less NW, SupeRx of Arizona, Walgreens and Standard Drug. Revco is also considering the concept for some of its new and remodeled stores, a company executive noted several months ago.

Meanwhile, drug chains continue to promote their photofinishing services heavily and expand the choices available to their customers in terms of print size, quality and two-for-one options. Those services and promotions figure heavily in how well chains can turn their two or three lines of film.

"Film goes hand-in-hand with photofinishing," said a spokesman for Perry Drug Stores recently. "The more film we sell, the more we get back for photofinishing, and vice-versa. So we feel we have to offer more [developing] choices than our competitors."

HOME OF
PICTURE PICTURE
ONE FOR YOU
ONE FOR FREE
clocks
radios
appliances
electroni

Drug chains are fighting to remain the leaders in photoprocessing against stiff competition from supermarkets and discount stores.

Price hikes by the major film manufacturers late last year forced some new decisions on chain merchandisers, who had to choose between passing the higher prices onto their customers or swallowing them to maintain or build business. Either way, they face steadily increasing competition for the film business from supermarkets, discounters and other trade classes.

Drug chains are fighting hard to hold their share of the business for obvious reasons. Film continues to generate some of the most rapid turns in the drug store, with a minimum of required real estate. And the 35mm boom has pushed the category at double-digit sales gains for much of the past decade.

Chains also benefit from the heavy promotional support afforded by film manufacturers, who are locked in a fierce battle for market share and retail space. Although Kodak remains dominant with an estimated 80 percent of the U.S. market, Fuji has been an aggressive competitor in recent years, spending heavily to capture an estimated 11 percent of the domestic market and challenge the Kodak monolith. Polaroid has also made substantial inroads with its OneFilm entry. And Konica has also spent heavily to boost name recognition among U.S. consumers and gain market entry.

1989 photo/video department productivity in chain drug stores

Category	1989 total sales (add 000)	1989 % increase	% of category sales
Film	$ 656,500	9.9%	37.6%
Still color	441,849	12.6	25.3
Instant	208,083	4.7	11.9
Still b&w	6,568	4.2	0.4
Processing	646,446	12.4	37.0
Flashbulbs/flash attachments	235,933	4.1	13.5
Blank video cassettes*	149,955	11.7	8.6
Cameras	57,215	2.2	3.3
Total	$1,746,049		100.0%

*Restated

Source: *Drug Store News* 1990 survey of drug chains

Prices, mix give chains an edge in mature tape market

Videocassette recorders have found their way into nearly three out of four American homes, fueling a market for blank videocassettes that has boomed to more than $2 billion annually. Drug stores have captured roughly 13 percent of that market, according to a market estimate by 3M/Scotch, by jumping in aggressively with broad product selection and continual discounts and promotions.

Now, with household VCR penetration at near-saturation levels, the videotape market has matured into single-digit sales gains every year and a battle for market share among a handful of major manufacturers. The market has also become segmented by varying grades of tape quality and new labeling and packaging systems to give customers more choices and more convenience.

High-quality lines

In general, videotape and audiotape manufacturers have moved to overcome the rampant price-cutting on standard-grade blank tapes by offering more expensive, higher-quality lines and new tape grading systems. Increasingly, they are also responding to consumer demand for multipacks of three or more tapes.

Even on promotion, blank tapes yield gross margins of 20 percent or more, most retailers say. And they remain fast turners and traffic-builders, despite the maturity of the market.

Increasingly, however, the chain drug industry has become disenchanted with the potential of the video rental business. Faced with growing competition from Blockbuster Entertainment and other large-scale video specialists, most drug retailers have avoided or gotten out of the business.

Accelerating the trend last year was the departure of Rite Aid from the rental business. Rite Aid opted last fall to remove its video rental departments from 1,000 stores offering rentals "because our sales were slack in that area, attributable to other types of competition for video rentals," a spokesperson said.

Nevertheless, some drug and combo chains have carved out successful niches in the rental business. Among them: Wellby Super Drug in Maine, Lewis Drugs in South Dakota, Concord-Wrigley and Richardson's Pharmacy in Michigan, Randall's Food and Drug in Texas, and Smith's Food and Drug Centers in Utah and Arizona.

Videotape and audiotape manufacturers have moved to overcome the rampant price-cutting on standard-grade blank tapes by offering more expensive, higher-quality lines and new tape grading systems.

1989 photo/video department highlights in chain drug stores

Chain drug photo/video sales	$1,746,049,000
1989 percentage increase	12.8%
Percentage of total chain drug sales	4.4%
Typical gross margins	20% - 25%
Industry profit yield from photo/video last year	$349,209,200 - $436,511,500
Average annual department turns	9.0

Source: *Drug Store News* 1990 survey of drug chains

NIBBLES & SWEETS

An upscale candy and snack selection, stocked with boxed gift candies and snacks, and featuring gourmet favorites such as Tobler and Callard & Bowser products, is found in this Centreville, Va., Fantle's.

HALLOWEEN CANDY GUARANTEE
HALLOWEEN CANDY GUARANTEE
PHARMACY

Perry Drug's store managers are encouraged to show their creativity when designing seasonal candy displays.

Drug chains take bite of high-impulse candy sales

Candies and snacks in 1989 continued to crunch their double-digit sales gains in chain drug stores—with some aggressive operators posting close to 20-percent gains from the high-impulse category.

At Duane Reade in New York City, for example, candies, snacks and convenience foods are the fastest growing items. They are stacked high by the front of stores, priced sharply, and meet the convenience needs of business people, who are the chain's primary neighborhood customers.

This strategy is similar to that of deep discounters Rockbottom, F&M, Drug Emporium and Phar-Mor, who make even more powerful statements in their larger spaces. At Rockbottom, candy yields 30- to 40-percent margins and turns 10 to 12 times annually. "We can undercut the food stores by 20 percent or more on this category and still make money," said a chain source.

Overall, candy sales grew 11.7 percent in chain drug stores to $1.47 billion. The advance was led by bagged candies, up 13.9 percent to nearly $600 million in 1989.

At Douglas Drug in New England, assistant director of marketing Anna Iacono believes consumers are buying more candy and snacks than ever, especially at Christmas, Thanksgiving and Halloween.

Perry Drug also emphasizes seasonal sales, displaying prominently in the power aisle which runs down the center of the stores. Store managers are encouraged to be as creative as possible with the displays.

At Cincinnati-based SupeRx, food buyer Dave Coleman says that "If it's candy or snacking item, it sells. I can't think of anything in these categories that hasn't done well this year."

Two chocolate introductions that have done well, according to buyers: Mars Bounty bar and Hershey's Symphony.

Palmer and Bartz seasonal chocolates also were cited as strong brands.

In snacks, many buyers said that corn chips, bagged popcorn, microwave popcorn, crackers, cookies, and snacking cakes are selling well—led by such brands as Nabisco, Keebler, Sunshine and Little Debbie.

Other strong brands cited: Ritz's peanut butter crackers, Eagle's three flavors of roasted peanuts, Frito-Lay and Wise potato chips, Entenmann's baked goods and Smucker's snack gift sets as strong sellers.

Single-serve snack packs in all flavors continued to outpace the category for most chains, a trend one buyer attributed to the growth in single-person households as well as to a maturing America.

Today, many buyers have broadened their working definition of what constitutes a snack to include just about any edible product that can be eaten right from its pack or prepared in a hurry.

Many drug chains now have ice cream coolers in their stores, and some like K&B and Walgreens make their own ice cream. Many chains have put in Good Humor cases to sell single-serve ice creams. Buyers say margins on the ice cream category are usually between 30 percent and 45 percent.

Also gaining presence: baseball cards and collector sets from Amurol, Topps, Leaf, Donruss and Fleer.

At Arbor Drug in Michigan, vp-purchasing Dennis Wozniak said sales of a $20 collector set of baseball bubblegum cards last year were phenomenal. "Adults are buying them as much as kids," he said.

At SupeRx, David Coleman said he saw the same trend. He says collector sets have been showing consistent growth for three years.

1989 candy department productivity in chain drug stores

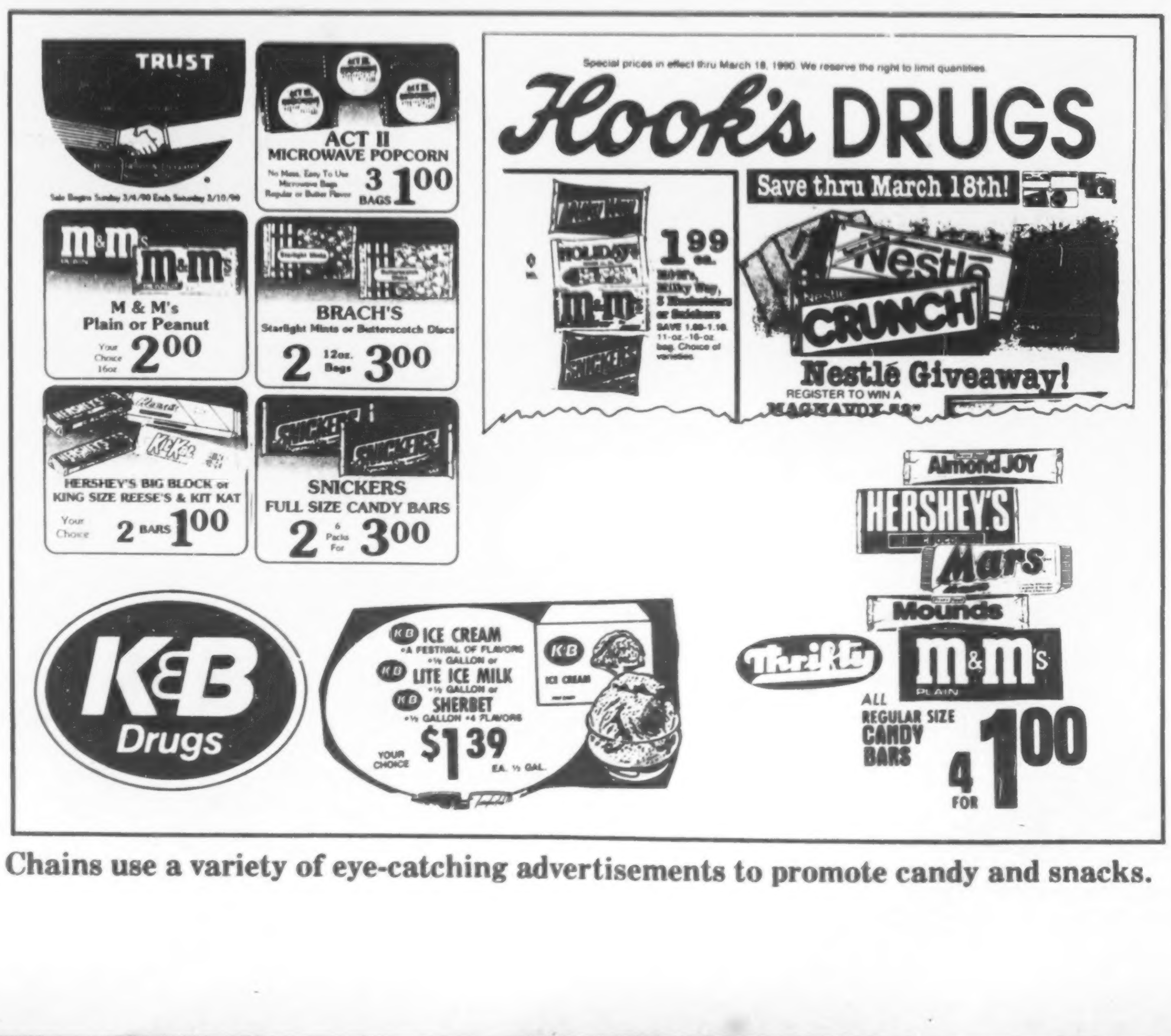
Category	1989 total sales (add 000)	1989 % increase	% of category sales
Bagged	$ 597,685	13.9%	40.7%
Bars	430,936	10.3	29.3
Boxed	286,676	10.7	19.5
Chewing gum	131,495	8.8	8.9
Other	22,588	10.9	1.5
Total	$1,469,380		100.0%

Source: *Drug Store News* 1990 survey of drug chains

1989 candy department highlights in chain drug stores

Chain drug candy sales	$1,469,380,000
1989 percentage increase	11.7%
Percentage of total chain drug sales	3.7%
Typical gross margins	25% - 30%
Industry profit yield from candy last year	$367,345,000 - $440,814,000
Average annual department turns	7.5

Source: *Drug Store News* 1990 survey of drug chains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Mars
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ALL REGULAR SIZE CANDY BARS
4 FOR 1.00

Chains use a variety of eye-catching advertisements to promote candy and snacks.

Chains' consumables sales increase 8.8%

Category benefits from promos & tests with new items and c-food

Having sold groceries for some time now, buyers are more comfortable and receptive to promoting new items.

Chains have discovered that an ideal mix of dry groceries includes juice, cereals and canned soups.

Sales of grocery products in chain drug stores rose 8.8 percent in 1989, thanks largely to increased promotional activity with groceries, and to more experimentation with new items and convenience foods.

Most chains promote at least some grocery items, even if it's just soft drinks, snacks or candies, in every circular. Some chains also use direct mailers for stores with convenience food departments.

Having sold groceries for some time now, buyers are more comfortable and receptive to promoting new items—especially when buyers feel confident that food stores won't be too aggressive with these items.

"We are still selective about the new items we'll promote, but we are more willing to try them. We were one of the first to promote Chef-Boy-Ardee's new microwavable Lunch Buckets, and we did very well with them," said Dennis Wozniak, vp-purchasing for Arbor Drug.

Avoiding head-on competition

Drug chains are also discovering new ways to avoid head-on competition with food stores over the items they promote. Wozniak said Arbor decided to advertise Campbell's soup last year, but it didn't want to feature the flavors that food chains tend to promote, like chicken or tomato soup. So the chain decided to advertise flavors that were less price-sensitive, such as celery soup.

Rite Aid has a different strategy for groceries. It does a high percentage of its business in prescriptions, so traffic is available. What Rite Aid's management wants from groceries is incremental sales.

So, Rite Aid buys top brands on deal or closeouts and then stacks them out in their stores. The business is all in-and-out, but Rite Aid is able to take a good margin, pick up incremental sales from customers already in the store, and pass along a good "value" to its shoppers.

In one recent incidence, Rite Aid made an "opportunistic buy" of Vlasic pickles at a special closeout price. Because it acquired the pickles at an especially low price, it was able to sell them for about 40 cents less than grocery stores were charging. But even at that price, a source said Rite Aid took close to a 20 percent margin.

For small chains like the 10-unit Florida-based Best Buy chain, groceries have proven they can draw traffic and build sales, but the challenge now is to fine tune the program to make it even more profitable.

Best Buy's grocery buyer, Marv Fletcher, says warehousing more consumables will increase his profit margin. "When we warehouse some promotional items like potato chips, we get an extra 5 percent to 10 percent for drop shipping them to the warehouse," he pointed out.

Seasonal promotions

Last year more drug chains did seasonal cross promotions using grocery items. Particularly popular was holiday season pairings of pumpkin pie mixes or canned pumpkin, either with evaporated milk, jars of marshmallow cream, or packages of ready-to-bake pie crusts.

Besides advertising groceries as traffic builders, many drug chains also stock selected groceries everyday as a convenience to customers, as well as a way to create incremental sales and become a destination store for fill-in

Continued on page 100

1989 grocery-snacks-soft drinks-beer-liquor-wine department productivity in chain drug sales

Category	1989 total sales (add 000)	1989 % increase	% of category sales
Liquor/wine	$ 773,209	9.0%	46.6%
Soft drinks	237,927	9.9	14.3
Snacks/cookies/chips	136,366	9.8	8.2
Nuts	134,849	7.3	8.1
Beer	99,298	6.5	6.0
Canned goods/condiments	72,875	7.3	4.4
Dry packaged groceries	66,549	9.0	4.0
Other foods	139,539	8.9	8.4
Total	$1,660,610		100.0%

Source: *Drug Store News* 1990 survey of drug chains

1989 grocery-snacks-soft drinks-beer-liquor-wine department highlights at chain drug stores

Chain drug grocery-beverage sales	$1,660,610,000
1989 percentage increase	8.8%
Percentage of total chain drug sales	4.2%
Typical gross margins	15% - 20%
Industry profit yield from grocery-wine last year	$249,091,500 - $332,122,000
Average annual department turns	5.2

Source: *Drug Store News* 1990 survey of drug chains

Almost all the major drug chains today have cold drink cooler programs in their stores. They generate tremendous impulse and convenience sales.

Promos, testing boost grocery product sales

Continued from page 98

purchases.

Chicago-based Walgreens, for example, has almost 600 stores with convenience food sets, and it's currently installing these departments in about two-thirds of all new stores it opens.

Eckerd, Perry, Snyder, Arbor, SupeRx, Best Buy, Osco, Longs, Thrift and Thrifty also have convenience sets in selected stores where management perceives "opportunities" for incremental sales and enhanced customer service.

Not for all locations

The 350-unit SupeRx chain headquartered in Cincinnati doesn't feel c-food sets work in all locations, but it does think they're appropriate for stores in populated markets without close competition from food stores.

"We constantly experiment with new planograms and we update it to take advantage of changing trends," said Dave Coleman, who supervises the program.

Don Beeler, president of the 62-unit, Minnetonka, Minn.-based Snyder Drug, said his chain began expanding the department two years ago and today it is in eight stores. Beeler says he will open more departments as opportunities develop.

At Arbor, where 25 out of 100 stores have convenience food departments, Wozniak says the department has generated all "plus business" for the chain. Arbor is seeing same-store growth averaging between 10 percent and 15 percent; Wozniak said Arbor will continue to add c-departments to its mix whenever the location warrants it.

Location and traffic are the two most important criteria for selecting a site for a c-food program, buyers said.

Consistent opportunity

Walgreens, which has the most ambitious program, with some 600 c-food departments open now, has consistently been able to exploit this opportunity dramatically.

Stocking convenience foods gives Walgreens the chance to position itself as "a convenience store as well as a drug store," and it fits in well with its expansion plans, since it often selects sites in high-traffic neighborhoods where competition from food stores is not intense.

In addition to convenience foods, many chains today are also installing coolers so they can have a set for cold beverages as well as luncheon items like cheeses, milk and juices. Margins on single-serve soft drinks and juices are in the 40 percent and above range.

In addition to milk, beer and wine can be found in coolers of the chains that carry it, like Walgreens and K & B. But the best sellers are still the lead-

Continued on page 111

Sugar Daddy
Charleston Chew!
Junior Mints
Pom Poms
Sugar Babies
Juniors
BUY HALLOWEEN'S BEST TREATS. HELP AMERICAN CHICLE DONATE $100,000 TO UNICEF
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A full page national FSI featuring a 50¢ coupon and a Free Scooby-Doo® video rental offer will be delivered in October.

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Appeal...Awareness...Impact...Value

BUY HALLOWEEN'S BEST TREATS FOR 1990

American Chicle

Promos, c-food testing boost consumables 8.8%

Continued from page 100

ing soft drinks, Coke and Pepsi, as well as juices like Veryfine and Ocean Spray, bottled waters including Perrier and regional brands like Poland Springs and Calistoga, and isotonics like Gatorade.

At Perry Drug in Detroit, beverage buyer Dan Hale says his sales of juices, bottled waters and sparkling waters are "skyrocketing." Perry's growth has been so strong that Hale has now created a new planogram, averaging between 4 feet and 8 feet just for bottled waters.

The set, which is next to soft drinks and which contains one or two regional brands as well as the nationals, was rolling out at press time. All Perry stores also have a full set for juices in their coolers as well as a section for warm juices and isotonics in their grocery planogram.

In large stores, especially those on the West Coast, beverages are usually given 100 to 200 feet of linear space. Pay Less in Wilsonville, Ore. is reestablishing a large beverage set. About a year ago, both California-based Sav-on and Longs expanded space for beverages to about 150 linear feet.

Buyers agreed that they make more money on soft drinks and beverages by carrying them every day. When drug chains feature soft drinks, they usually take margins at or close to cost to be competitive. On the everyday assortment, most chains will average 15 percent to 20 percent on soft drinks and between 25 percent to 40 percent on warm juices.

If a chain has a cooler program, its margins on single-serve soft drinks and other beverages usually range from 50 percent to 65 percent.

Drug chains that carry alcohol in selected stores will also promote beer heavily. As a category, alcohol sales have been relatively flat in recent years, but buyers said there are growth segments including California varietals wines like Chardonnay, Zinfandel (both red and white), Cabernets, and premium-brand hard liquors. Buyers also reported that sales of non-alcoholic beers are growing.

In non-edible groceries, pet food sales showed moderate growth in many stores last year. Chains with the strongest growth advertised the category often or featured it frequently on off-shelf displays.

At Harco Drug in Alabama, vp of merchandising Charles Reinhart pointed out that people buy more pet food than baby food, so Harco advertises it at least twice a month. Most drug chains prefer to feature cat food because it's not as bulky as dog food and buyers believe their customers tend to owns cats more often that dogs.

Deep discount chains like Drug Emporium, F&M and Phar-Mor devote more space to the category and market all types of pet food aggressively.

Rite Aid also uses pet foods, particularly cat food, to establish a good price image as well as to generate add-on sales. Recently Rite Aid picked a large quantity of Kal Kan's Whiskas cat food on deal at a sharp price. It didn't advertise it, but case stacked it in the power aisle leading to the pharmacy.

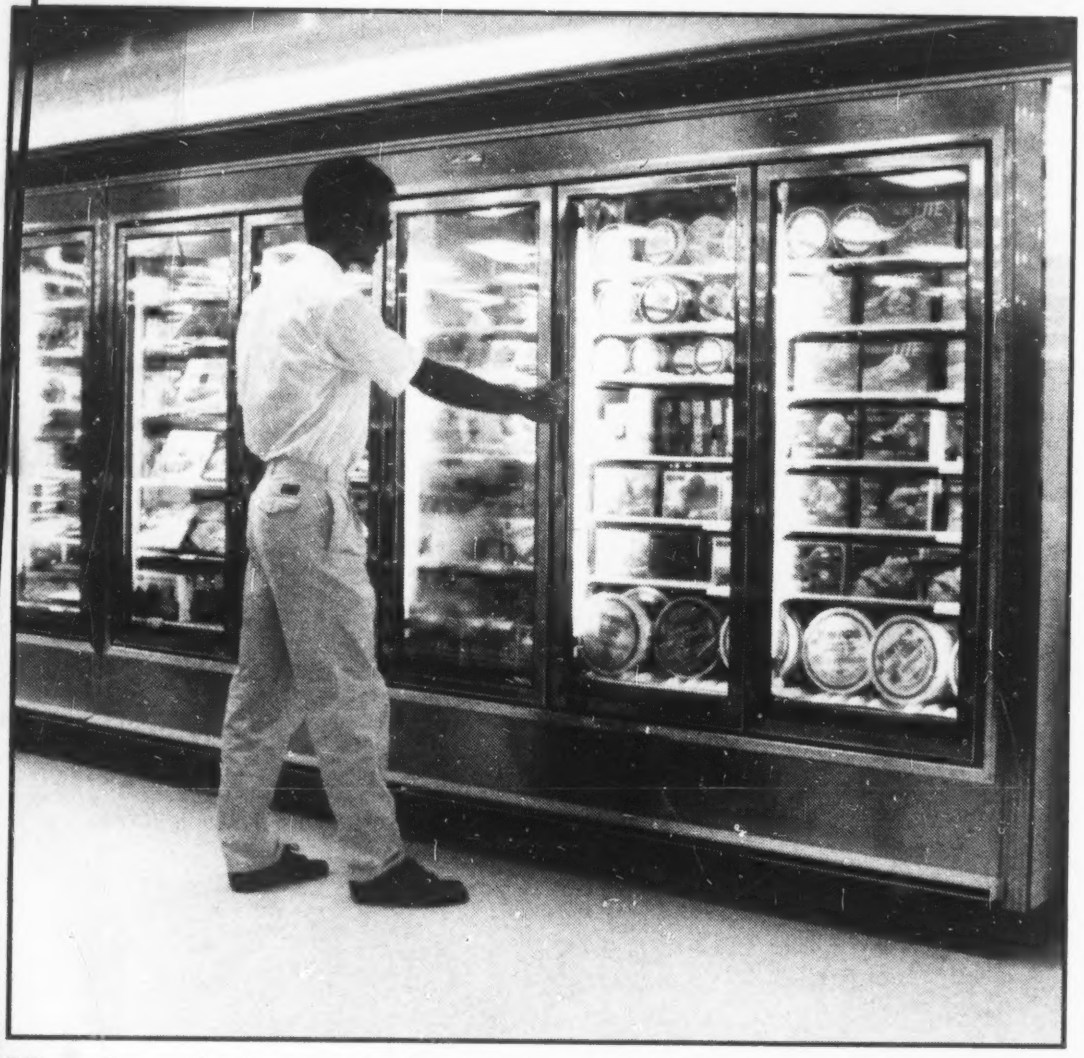
Priced at three for 89 cents, one source said the cat food flew out of the store, with many customers buying by the case. The source said many stores sold out some 25 cases apiece in about a month.

Household cleaning mix

The household cleaning category is another strong grocery staple that has done very well in chain drug stores. Most chains promote some type of cleaner every month. Again, the convenience factor is paramount.

Food bags and garbage bags are also seen as "convenience items," and they are also advertised regularly.

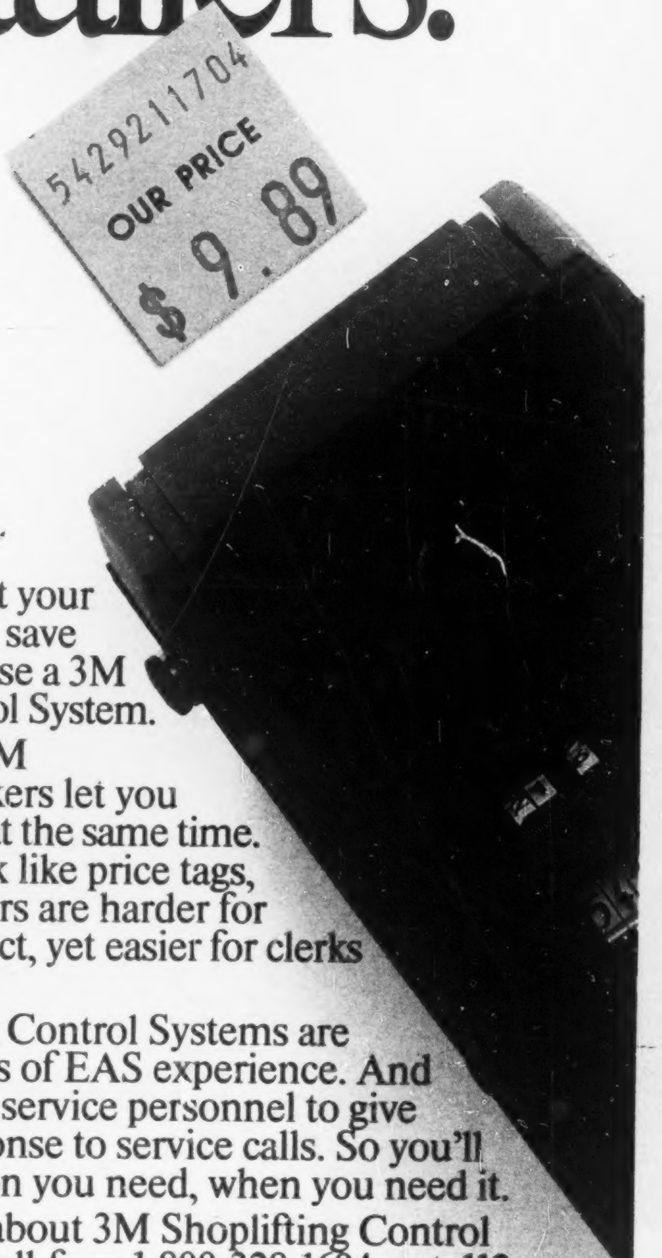
At Perry Drug in Detroit, beverage buyer Dan Hale says his sales of juices, bottled waters and sparkling waters are "skyrocketing." Perry's growth has been so strong that Hale has now created a new planogram, averaging between 4 feet and 8 feet just for bottled waters.



More drug chains are trying to attract "fill-in" shoppers by adding traffic building convenience food departments to their stores.

Fast-turning soft drinks attract convenience-minded shoppers. Two liters and six packs are the strongest sellers in chain drug stores.

Shoplifters should get hard labor, not retailers.



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Single-packs pace chains' tobacco profits

Single-pack sales, with their greater margins, are increasingly important to drug chains. Shown is a Centreville, Va., Fantle's.

CIGARETTE CENTER

Increased market segmentation causes retailers to stock many packings, to satisfy a broad customer base.

Given well-merchandised, secure tobacco displays, drug store operators derive good profits from the category, even in this period of diminished unit consumption. Single packs are accounting for a greater share of sales, chain buyers report, for two reasons: customers who are trying to lessen the amount they smoke buy fewer cigarettes per visit, and carton prices are reaching new high levels.

That is good news for drug chains, since single-pack margins are in the mid-20 percent range compared with 10 percent on cartons.

Overall, tobacco sales rose 4.7 percent to nearly $2.5 billion at drug chains in 1989.

Profits are enhanced, of course, by vendor allowances. New programs which pay for behind-the-counter shelf space are encouraging drug chains to have service tobacco displays. Philip Morris and RJ Reynolds have also developed new fixturing with built-in security systems that add to the impulse nature of the sale and generate higher volumes. Buyers are trying both approaches.

Price-value brands growing

A positive growth trend is the continued extension of price-value cigarettes: black-and-white and branded generics. Packings from Brown & Williamson and American Brands give consumers more smokes for the money and bring retailers higher margins.

Brown & Williamson made the most gains in this segment with a repositioned Viceroy now a branded generic, and with Richland 20s. B&W landed the second-best market share in generics, behind RJR.

Generics have had nothing but blazing growth, accounting for 15.3 percent of the tobacco market, up from 1 percent of units shipped in 1982

Buyers expect the launch of subgenerics, which sell at about half the price of a full-priced brand, to add fuel to the trend. Liggett Group's Pyramid, launched 15 months ago, is in this class, as is Philip Morris' Bristol. In December, B&W repositioned its branded generic, GPC Approved, to what B&W calls an "extra-low-priced" cigarette.

"Right now Pyramid is one of our best sellers. It was a niche in the market that needed to be filled," said Liggett spokesperson Carol Jova.

Protests forced RJR to abandon Uptown, a cigarette that was aimed at black smokers. Its Dakota got off to a rocky start when press accounts reported it would be aimed at blue collar females. That report was false, an RJR spokesperson said, and was based on "stolen documents" that showed "old proposals by outside marketing firms that were rejected."

Dakota—launched last month in Tennesee and Texas test markets—isn't targeted at females, but rather at Marlboro smokers, the spokesperson said. (Marlboro solidified its "King-of-the-Mountain" position in 1989, moving to 26.3 percent market share, compared with 1988's 24.9 percent. RJR's Winston, in comparison, is a distant second with 9 percent).

RJR also is testing a cigarette with a paper that it says "releases a fragrant aroma" when burned.

Philip Morris, meanwhile, was said to be planning to sell its Cartier Vendome cigarretes to credit card holders via home delivery.

Finding market niches has long been the hallmark of tobacco companies, and they are fully expected to have more successes this way. Still, overall unit sales fell more than 5 percent in 1989, and about 12 percent over the past five years.

1989 tobacco department highlights in chain drug stores

Chain drug tobacco sales	$2,476,311,000
1989 percentage increase	4.7%
Percentage of total chain drug sales	6.2%
Typical gross margins	15% - 30%
Industry profit yield from tobacco last year	$371,466,700 - $742,893,300
Average annual department turns	15.3

Source: *Drug Store News* 1990 survey of drug chains

1989 tobacco department productivity in chain drug stores

Category	1989 total sales (add 000)	1989 % increase	% of category sales
Cigarettes*	$1,685,560	5.6%	68.1%
Cigars	361,718	1.5	14.6
Lighters/smoking accessories	233,548	5.6	9.4
Tobacco/tobacco products	169,217	2.9	6.8
Pipes	26,268	0.2	1.1
Total	$2,476,311		100.0%

*Single-pack sales rose an estimated 7%; carton sales were flatter—a 4% increase.
Source: *Drug Store News* 1990 survey of drug chains

As much as half of last year's drop was due to RJR and Liggett Group phasing out trade loading. Ending this practice reduced vendor shipments to their direct accounts. The end of trade loading may turn out to be a boon for retailers, since it allows for tighter inventory accounting and more attention to retail sell-through.

Drug chains continue to hold their share of the lucrative tobacco market: 8 percent in 1989 compared with 9 percent in 1984. Convenience stores in that same period were the largest gainers, moving from 17 percent to 21 percent. Supermarkets dropped from 30 percent to 28 percent, according to Brown & Williamson.

The disposable lighter market in 1990 will try to fire its flame through licensing and multipack merchandising, market sources said.

Bic, for example, will add major league baseball imprints. Cricket plans to imprint the Cricket symbol. Djeep, fourth in market share after Scripto/Tokai, has a licensing agreement with Anheuser-Busch and will launch imprints in 1990, according to marketing manager Ken Zick. Distributed by General Cigar, the French-made Djeep lighters are typically premium-priced at $1.49 and feature positive flame control and triple-tank resevoirs.

Drug stores' housewares niche still the basics

Amid the glamour and gadgetry of the latest International Housewares Exposition, drug chain buyers generally homed in on basic merchandise, promotable items, and fashion colors and styles rather than high-tech or high-end items for their housewares departments.

That's because most drug chains see housewares as a steady, no-frills business. The industry is dominated by discount stores, which in 1988 accounted for 27.5 percent of the $35 billion (manufacturer sales value) housewares market, versus drug stores' 4.4 percent share, according to the National Housewares Manufacturers Association (NHMA). The trade group's 1989 figures aren't out yet.

$2.4B in sales

For 1989, the housewares category, in which *Drug Store News* included 16 segments, garnered $2.4 billion in sales at drug chains.

Although chains may differ on what they classify as part of the housewares category, certain segments stand out as areas of opportunity, however they're classified.

Health-oriented personal care products, for instance, are a hot segment for drug chains. This is because items such as whirlpools, massage devices, dental care appliances, and air and water filter systems dovetail nicely with their health care image and provide higher price points.

1989 housewares department productivity in chain drug stores

Category	1989 total sales (add 000)	1989 % increase	% of category sales
Plastic and rubber housewares	$ 530,496	8.3%	22.0%
Personal care	274,854	7.4	11.4
Household supplies	289,175	8.6	12.0
Small electrics	218,529	6.6	9.1
Glass/dishware/cookware	197,890	4.4	8.2
Paper products	187,664	9.8	7.8
House and kitchen gadgets	136,087	7.3	5.6
Lighting products	117,103	7.9	4.9
Picture frames/mirrors	79,883	7.4	3.3
Insecticides	72,042	6.2	3.0
Furniture/outdoor furniture	58,536	4.3	2.4
Plant/plant care	54,813	7.1	2.3
Bath/closet	43,381	4.8	1.8
Giftware	28,473	3.8	1.2
Vaporizers/humidifiers	25,373	9.2	1.1
Miscellaneous	97,014	7.2	4.0
Total	$2,411,312		100.0%

Source: *Drug Store News* 1990 survey of drug chains

Sales for the personal care segment as a whole, including hair dryers and other grooming products as well as such health-oriented items, increased 7.4 percent over last year and represented 11.4 percent of total housewares category sales, according to *Drug Store News* research. Vaporizers and humidifiers, broken out separately, gained 9.2 percent in sales for 1989 over the previous year.

Consumers' need for organization cuts across several drug store categories—stationery/home office and cosmetics come to mind—and organizers of all kinds are a fast-growing segment of drug chains' housewares departments. Especially popular are organizers for the closet and kitchen, but organizers for the bath and basement are also strong.

One chain buyer speculated that because consumers must invest so much in a home today, they are looking for less expensive ways to organize their closets and kitchens than spending big bucks on custom-built storage systems. Another explanation might simply be that today's affluent, acquisitive shoppers need someplace to stow away what they buy, and boxes, bags, shelving, and the like offer working couples a quick fix to space problems.

Rodman's Discount Drugs in Washington, D.C., offers a wide selection of small appliances. The segment gained 6.6 percent in sales at drug chains in 1989.

Whatever the reason, the demand is burgeoning for such kitchen items as lazy susans and plate and cup organizers, and closet accessories ranging from under-$100 metal organizers to cardboard or plastic storage boxes to sweater and suit bags.

Rite Aid's general merchandise buyer, Mark Blandford, pointed out that underbed storage boxes and "milk crates" also are excellent items to promote at Back-to-School time. (Rite Aid, which is pulling out of the video rental business, plans to use part of the freed-up space in some stores to expand its housewares selection. Depending on store size, the chain's housewares departments could increase 50 percent in size in some stores.)

At the housewares show, held in Chicago in January, several buyers looked to the latest colors and patterns in storage boxes, such as neon and black-and-white colors and floral and geometric designs, as a means of adding pizzazz to their housewares presentation. But some said they would stay with more traditional patterns and colors, having experienced short-lived demand for trendier designs.

Moreover, as more states and communities mandate recycling programs, manufacturers are coming out with container lines designed to sort recyclable cans, glass, newspapers, and plastics.

In housewares, buyers rate plastic and rubber housewares—from refrigerator bowls to dishpans—as one of their best day-in, day-out segments, providing high turns and good margins. Buyers said the new fashion colors, such as black-and-white and red, help increase sales here.

Sales leaders

"Rubbermaid is a leader in innovation and long-term fashion," said merchandise manager Andy Striefel of Pay Less NW, whose large (up to 31,000 square feet) stores house extensive housewares departments. "But for excitement, small companies such as Frem, with its new fashion colors, create incremental sales."

Striefel added that in housewares generally, "The trend is definitely to upscale products. Consumers are more demanding; they want better quality and unique products—for example, gadgets such as slicers and whips. Quality has become a call word everywhere. The consumer is willing to pay more for something that will last."

One impetus, he suggested, is that specialty stores which have sprung up in the past few years have raised consumers' expectations for upscale and unique products, and they now expect drug chains such as Pay Less to have similar items. "We see it as an opportunity," Striefel said.

Cleaning products strong

In household supplies, which as a segment grew 8.6 percent in 1989 over 1988, household cleaning products are top draws. Chains surveyed by *Drug Store News* at the end of 1989 looked to cleaning supplies as one of the 10 hottest segments for 1990. Chains reported taking advantage of pre-pricing, advertising, and new products (160 introductions in 1989, according to the Marketing Intelligence Service) to fuel sales.

While many chains promote housewares regularly, some of their most aggressive promotions and merchandising tactics are concentrated on lighting and paper products, and these efforts have paid off in increased productivity. Lighting product sales for 1989 grew 7.9 percent over the previous year, and paper products generated a 9.8 percent increase in sales, 1989 versus 1988.

1989 housewares department highlights in chain drug stores

Chain drug housewares sales	$2,411,312,000
1989 percentage increase	7.4%
Percentage of total chain drug sales	6.0%
Typical gross margins	35% - 45%
Industry profit yield from housewares last year	$843,959,200 - $1,085,090,000
Average annual department turns	3.0

Source: *Drug Store News* 1990 survey of drug chains

Chains play off of Nintendo, Turtle mania

Segment offers customer convenience, builds loyalties

Chain loyalty in the making: impressive toy aisle captivates preschooler at Pay Less' new Clackamas, Ore., store.

Drug chains that relied on the ongoing success of Nintendo and the fast-growing popularity of Playmates' Teenage Mutant Ninja Turtles were comparatively big winners in the toy category in 1989.

These phenomena, driven by television advertising and unique playing propositions, brought profits to drug chains—especially those who don't compete directly with mega-discount and toy stores.

Overall, toys grew 5.9 percent to $846 million in chain drug stores last year, yielding 35 to 40 percent margins. Toys are valuable to drug chains, in developing loyalties among young toy-using shoppers and in meeting the convenience needs of young families.

Nintendo and the Turtles copped four of the top five movement slots in December, the peak of the Christmas selling season, and seven of the top 20 slots in *Toy & Hobby World's* Toy Hit Parade. No board games appeared in this list, compared with a few years ago when several scored high.

Although perceived by some drug chains as too heavy an investment, the Nintendo control deck at $100 retail blew out at one Northeastern chain. Drug store merchants who committed to Nintendo generally sold cartridges at $35 to $55.

> *For all the excitement of new items and flashy advertisements, basic toys remain the backbone of the department and are often among the top industry sellers.*

Buyers called the Turtle action figures the strongest license since the mid-'80s, sustaining swift movement year-round.

According to the *Drug Store News* General Merchandise Survey in mid-1989, drug store operators ranked toys in the top five of all general merchandise categories for the introduction of exciting products; it ranked behind seasonal, greeting cards, personal care and school supplies.

Basic backbone

For all the excitement of new items and flashy advertisements, basic toys remain the backbone of the department and are often among the top industry sellers.

Mattel's Barbie, at No. 2, and Hasbro's G.I. Joe, at No. 11, once again showed their endurance on the *Toy & Hobby World* list.

Toys that scored high for the second year in a row: Kenner's Real Ghostbusters action figures and role-playing accessories (9), and Fisher-Price's Fun With Food (14).

The basics, pegged toys at under $5 and board games, are other steady performers. Peggables serviced by such firms as Imperial, Jak-Pak, Ja Ru and Larami provide day-in and day-out business, attracting the family shopping coveted by drug store operators and offering last-minute gift choices. Board games, Barbie dolls and accessories, and pre-school toys such as Little Tykes, Sesame Street, Disney and Fisher-Price were strongest.

Pay Less and Sav-on were among chains with strong displays of boxed plastic models, by such vendors as Revell, Lindberg and Model Specialty.

1989 toy department productivity in chain drug stores

Category	1989 total sales (add 000)	1989 % increase	% of category sales
Games	$167,154	8.5%	19.8%
Pegged toys	122,003	4.3	14.4
Cars	113,134	5.3	13.4
Boxed toys	101,402	4.1	12.0
Preschool	83,582	8.3	9.9
Dolls	61,937	5.3	7.3
Plush	60,837	1.3	7.2
Hobbies	44,026	4.8	5.2
Miscellaneous/seasonal	92,050	8.3	10.9
Total	$846,124		100.0%

Source: *Drug Store News* 1990 survey of drug store chains

A high-profile plush statement, using popular dinosaur and bear motifs, at a Phoenix SupeRx.

1989 toy department highlights in chain drug stores

Chain drug toy sales	$846,124,000
1989 percentage increase	5.9%
Percentage of total chain drug sales	2.1%
Typical gross margins	35% - 40%
Industry profit yield from toys last year	$296,143,400 - $338,449,600
Average annual department turns	4.0

Source: *Drug Store News* 1990 survey of drug chains

HOSIERY
23
PANTY HOSE

As the most important general merchandise category, retailers give hosiery high-profile positions, such as this spot near the front door in a Chicago Walgreens.

1989 general merchandise department productivity in chain drug stores

Category	1989 total sales (add 000)	1989 % increase	% of category sales
Pantyhose/soft goods	$ 284,730	13.0%	14.6%
Sunglasses	262,827	14.4	13.4
Batteries	230,540	11.9	11.8
Hardware	195,127	7.8	10.0
Pet needs	194,261	9.3	9.9
Automotive	188,996	6.8	9.7
Sporting goods	156,597	8.9	8.0
Watches/bands	128,383	6.8	6.6
Home electronics	124,158	7.3	6.3
Yarn/sewing notions	80,990	2.8	4.1
All others	108,835	10.7	5.6
Total	$1,955,444		100.0%

Source: *Drug Store News* 1990 survey of drug chains

General merchandise rises 9.8% to $1.96B

1989 general merchandise department highlights in chain drug stores

Chain drug general merchandise sales	$1,955,444,000
1989 percentage increase	9.8%
Percentage of total chain drug sales	4.9%
Typical gross margins	35% - 45%
Industry profit yield from general merchandise last year	$684,405,400 - $879,949,800
Average annual department turns	5.0

Source: *Drug Store News* 1990 survey of drug chains

For all the talk about drug chains reemphasizing health care, that shouldn't be interpreted as an abandonment of general merchandise. Far from it. Indeed, batteries, sunglasses and hosiery ranked among the strongest growing categories at drug chains in 1989.

The three segments, which together account for 40 percent of the general merchandise department, leaped ahead in the double digits. In large part, they are frequently replenished items that sell well in drug stores, which are perceived as outlets of convenience.

Their success is also driven by merchandising advances, such as cross-promotions, space-efficient packaging and displayers, that are well accepted by retailers and consumers.

Overall, general merchandise grew 9.8 percent at drug chains in 1989 to $1.96 billion, equal to 4.9 percent of total chain volume. Retailers generally take 35 to 45 percent margins on goods from this department.

Batteries

Heading into the year, retailers anticipated charged-up performance from batteries; they voted the category one of the 10 hottest for the second straight year, also cited it as a key checkstand item, and again as a strong performer in *Drug Store News*'s mid-1989 General Merchandise Survey.

Indeed, batteries grew 11.9 percent at drug chains to $230.5 million, as the number of battery-powered devices continues to proliferate. Toys and portable audio devices, for example, are estimated to account for more than 60 percent of battery sales.

Do-it-yourself sales grow*

(In billions of dollars)

	Consumer	Contractor	Total
1988(E)	$66.1	$35.5	$101.7
1987	62.0	31.5	93.5
1986	57.9	30.0	87.9
1985	53.8	26.4	80.2
1984	51.6	22.4	73.9
1983	46.2	16.2	62.4

*Exclusive of labor and new construction costs
E—Estimated
Source: Home Improvement Research Institute

In the GM Survey, batteries were named as fourth best in vendor support and space efficiency, and fifth best in gross margin and chain promotions.

Eveready and Duracell were the most preferred by consumers, according to *Drug Store News*' Consumer Brand Preference Study, published in December. Retailers praised both vendors' television ads for memorability and for effectively driving home the concept of longevity.

In matters of space efficiency, Ray-O-Vac gained drug store space with its Smart Pac configuration for checkstands; Eveready introduced its Space Pack and Family Pack shrinked-wrapped packages with bold graphics and high product density in displays.

Panasonic also gained distribution.

The advent of new fast-acting charger systems for rechargeables promised to stimulate new interest. General Electric and Eveready introduced fast-acting one-hour chargers, which are said to be considerable improvements over previous seven-to-16-hour systems. Their movement will depend on whether consumers perceive ample value, considering the higher prices.

Hosiery

In the GM Survey, retailers ranked hosiery as the most important general merchandise category they sell. The high-profile in-store positions they give the category are testimony to that feeling. L'eggs, No Nonsense, Hanes and Burlington reinforced their positions as brands promoted heavily by vendors and retailers.

Store managers made specific positive mentions of L'egg's Pantyhose Advisory, an interactive shelf computer.

EVERYDAY
SUNGLASSES 50% OFF,
GOODY HAIR CAF
COVER GIRL 35% OFF,
HOSIERY 30% OFF,
IF IKE CAN'T BUY IT
IKE WONT BUY IT

Discounts on hosiery and sunglasses general merchandise categories are prominently displayed on signage drawing customers into a Memphis, Tenn. Ike's.

Watches

Drug chains benefitted from women, who buy 65 percent of watches, shifting to more, lower-cost models as fashion accessories. Sales of under-$50 items drove 7 percent segment growth the past year.

Brand staples at drug chains: Timex, Casio, Armitron, Lorus and Sharp International, according to buyers, who seek a broad range of affordable styles and healthy margins.

Moreover, new styles and licenses help keep watches interesting. Strong lately: Little Mermaid, Ninja Turtles and Dick Tracy. Large face watches, a Russian-styled watch, and sports models endorsed by professional athletes were prominent, as chains assured sales with regular promotions.

Sunglasses

Sunglasses advanced 14.4 percent to $263 million at drug chains in 1989. More drug chains are playing them up as an easily obtained fashion accessory by displaying spinners near cosmetics, or else grouped by the front end, to increase impulse purchases.

The Food and Drug Administration has endorsed a voluntary program put forth by the Sunglass Association of America, a manufacturer trade group, to label sunglasses according to the degree of ultraviolet protection provided. As protection becomes a more significant issue, drug chains stand to gain share because of their health care image and the ability of pharmacists to answer questions.

Sunglass sales hit new high

(unit sales in U.S. in millions)

1989	200*
1988	180
1987	189
1986	175
1985	160

*—*Estimated*

Source: Sunglass Association of America

FINANCIAL

Rite Aid reports gains in sales and net income

SHIREMANSTOWN, Pa. — Rite Aid Corp. reported increases in sales and net income for fiscal 1990, a year in which it completed the installation of pharmacy and front-end data capture systems, closed its video departments and sold its interest in Super Rite Foods.

Sales advanced 10.6 percent, to $3.2 billion, for the 52-week fiscal year ended March 3, compared with $2.9 billion for the 53-week previous year. Same-store sales for core Rite Aid units increased 7.7 percent for the year. The company had a net gain of 168 stores for the year.

Fiscal 1990 net income gained 7.2 percent, to $102.1 million, or $2.46 per share, from $95.2 million, or $2.30 per share, for fiscal 1989. Included in net income was an $18.4 million after-tax gain from the third-quarter sale of the company's 46.8 percent interest in Super Rite Foods.

Excluding a one-time write-off in the third quarter for the elimination of video rental departments, income from continuing operations for the year increased 3.5 percent over the previous year, to $95.3 million. After the $22 million pretax charge to provide for the video department closings, income from continuing operations dropped to $81.9 million from the year-earlier $92.1 million.

For the 13-week fourth quarter, sales were $857.6 million, up 4.7 percent from $819.2 million for the 14-week year-ago period. Comparable-store sales for the quarter grew 7.5 percent at core stores and 4.25 percent at acquired stores.

Fourth-quarter net income was $35 million, compared with $36.1 million for the prior-year period.

American team firming, store sales being eyed

Continued from page 3

with the 675-store company. Scott has been replaced by former regional vp Dave Maher, as reported earlier.

Another recent departure was that of Dominic Cavallo, who served up until his resignation as senior vp-marketing operations. Cavallo has not been replaced, and sources inside the company were uncertain as to whether his post would be filled.

In another management change, Alan Barker, who left American Drug late last year, has been replaced as vp-administration and chief counsel by Tom Walter.

A number of other senior executives—including the last of those who were brought in by Scott during his tenure—were not part of the exodus of recent months. Among those who remain are Ron Grove, senior vp-merchandising/distribution; Robert Baird, senior vp-store operations; Craig Painter, vp-strategic planning and development; Dale Bystrom, vp-marketing; John Dvorak, vp-merchandising; and Arlyn White, vp-distribution.

Meanwhile, American Drug and its parent company, American Stores, continue to scrutinize underperforming stores throughout the country for their future viability. The company says unprofitable or unsupportable stores or store networks may be put on the selling block, much like last year's sale of more than 40 supermarkets and drug stores in various American Stores markets.

Just how many stores may be targeted for sale or closing is open to question. American Stores is downplaying the significance of the sale plans, but retail analyst John Kosecoff of First Manhattan Co. predicted in a report that as many as 200 Sav-on and Osco drug stores may be put up for sale, particularly in Western states.

"We believe these properties could be attractive purchases, as a whole or in part, to K mart's Pay Less [Drug Stores NW] drug chain, Pacific Enterprise's Thrifty drug stores, Longs, and Abco supermarkets, as well as to financial buyers," Kosecoff reported in late March. "Some stores may be reused by American as Lucky or Alpha Beta food stores."

Proceeds from the store sales could help cut American Stores' $3.6 billion of debt, much of which stems from its 1988 buyout of Lucky Stores on the West Coast.

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MARKET DIARY:

Largest Dollar Gainer	Am. Stores, Gt Atl&Pac Tea	$ 4.63
Largest Dollar Loser	Longs Drug Stores	$− 2.75
Largest Percentage Gainer	Mylan Labs	16.25%
Largest Percentage Loser	Par Pharmaceutical	− 9.43%

Advances	34
Declines	18
Unchanged	3
New highs	5
New lows	4

	Close 3/27/90	Close 4/11/90	Net Change	Percent Change
Drug Store News Index	2777.03	2857.01	79.98	2.88
Dow Jones Industrial Average	2736.94	2729.73	− 7.21	−0.26
Standard & Poor's 500-Stock Index	341.50	341.92	0.42	0.12
N.Y.S.E. Composite	187.40	187.57	0.17	0.09
Value Line Index	245.08	241.62	− 3.46	−1.41

Source: Nordby International Inc., Boulder, Colo.

DRUG STORE NEWS INDEX

Exch	Company	Ticker Symbol	Closing Price 3/27/90	Closing Price 4/11/90	Net Change In Period	Percent Change In Period	P/E Ratio	Annual Dividend Rate	Annual Dividend Yield	Annual High	Annual Low
Chain store transactions											
OTC	Arbor Drugs	ARBR	17.75	18.75	1.00	5.63	17	0.16	0.85	24.75	13.50
OTC	Big B	BIGB	11.13	10.88	−0.25	− 2.25	22	0.16	1.47	15.25	10.63
OTC	Drug Emporium	DEMP	7.50	7.25	−0.25	− 3.33	11	0.20	2.76	16.38	6.88
NYS	Fay's Inc.	FAY	8.13	8.75	0.63	7.69	13	0.20	2.29	15.00	7.75
ASE	Genovese Drug (L)	GDX.A	8.25	8.50	0.25	3.03	20	0.24	2.82	12.88	7.50
OTC	Leroy Pharmacies	LERY	5.13	5.00	−0.13	− 2.44	− 83	0.00	0.00	5.75	2.88
NYS	Longs Drug Stores	LDG	42.50	39.75	−2.75	− 6.47	13	0.96	2.42	48.50	35.25
OTC	Medicine Shoppe (H)	MSII	21.25	23.13	1.88	8.82	24	0.16	0.69	23.75	17.38
NYS	Perry Drug	PDS	8.63	7.88	−0.75	− 8.70	14	0.00	0.00	12.88	7.38
NYS	Rite Aid Corp.	RAD	31.13	33.75	2.63	8.43	17	0.88	2.61	41.13	29.50
NYS	Walgreen Co.	WAG	42.63	43.13	0.50	1.17	17	0.80	1.86	50.25	37.25
Wholesaler's transactions											
ASE	Bergen Brunswig	BBC	24.75	25.50	0.75	3.03	15	0.32	1.25	27.25	20.50
OTC	Bindley Western Ind.	BIND	9.75	9.50	−0.25	− 2.56	19	0.00	0.00	10.75	7.63
OTC	Cardinal Distribution	CDIC	22.00	23.50	1.50	6.82	18	0.08	0.34	25.00	15.50
OTC	Durr-Fillauer (H)	DUFM	23.00	24.25	1.25	5.43	16	0.24	0.99	25.88	18.50
ASE	Ketchum	KCH	2.13	2.13	0.00	0.00	− 1	0.00	0.00	7.13	1.63
NYS	McKesson Corp.	MCK	37.88	36.88	−1.00	− 2.64	15	1.44	3.91	39.75	31.75
ASE	Moore Medical (L)	MMD	6.63	7.25	0.63	9.43	− 9	0.00	0.00	15.13	6.00
NYS	Owens & Minor	OMI	11.38	11.50	0.13	1.10	38	0.24	2.09	14.00	10.63
Manufacturer's transactions											
NYS	Abbott Labs	ABT	64.88	69.25	4.38	6.74	17	1.68	2.43	70.38	53.63
NYS	American Home Products	AHP	100.75	103.50	2.75	2.73	14	4.28	4.14	110.25	87.63
NYS	Baxter International	BAX	24.38	22.63	−1.75	− 7.18	15	0.64	2.83	26.25	18.63
OTC	Block Drugs Co.	BLOCA	33.50	35.00	1.50	4.48	14	0.68	1.94	38.00	31.63
ASE	Bolar Pharmaceutical	BLR	8.13	9.13	1.00	12.31	5	0.16	1.75	32.25	3.50
NYS	Bristol-Myers Squibb	BMY	53.50	54.88	1.38	2.57	39	2.12	3.86	58.25	46.38
NYS	Carter-Wallace	CAR	50.38	52.00	1.63	3.23	16	0.80	1.54	60.50	40.50
ASE	Columbia Labs	COB	13.13	13.75	0.63	4.76	− 25	0.00	0.00	19.63	4.38
ASE	Forest Labs	FRX	39.63	38.50	−1.13	− 2.84	28	0.00	0.00	44.50	28.63
NYS	ICN Pharmaceutical (L)	ICN	3.63	3.38	−0.25	− 6.90	0	0.00	0.00	6.88	3.38
ASE	Lee Pharmaceutical (L)	LPH	1.88	1.75	−0.13	− 6.67	− 8	0.00	0.00	4.75	1.63
ASE	P. Leiner Nutrition	PLI	10.50	10.38	−0.13	− 1.19	16	0.00	0.00	14.25	8.75
NYS	Lilly Eli Co.	LLY	64.88	67.63	2.75	4.24	21	1.64	2.43	69.25	52.00
NYS	Marion Labs	MKC	21.88	24.63	2.75	12.57	103	0.60	2.44	36.63	21.00
NYS	Merck Co.	MRK	71.38	73.88	2.50	3.50	20	1.80	2.44	80.75	66.00
NYS	Mylan Labs	MYL	20.00	23.25	3.25	16.25	42	0.20	0.86	25.38	8.13
NYS	Par Pharmaceutical	PRX	6.63	6.00	−0.63	− 9.43	300	0.00	0.00	11.25	3.88
NYS	Pfizer Inc.	PFE	60.13	58.00	−2.13	− 3.53	14	2.40	4.14	75.75	54.50
NYS	Rorer Group (H)	ROR	67.88	68.88	1.00	1.47	26	0.84	1.22	69.25	36.13
NYS	Schering Plough	SGP	80.25	83.00	2.75	3.43	20	1.80	2.17	87.50	63.38
NYS	Syntex Corp.	SYN	50.63	52.13	1.50	2.96	19	1.48	2.84	54.50	40.00
OTC	Taro-Vit Industries	TAROF	0.88	0.88	0.00	0.00	− 29	0.00	0.00	1.88	0.88
NYS	Upjohn Co.	UPJ	38.88	37.88	−1.00	− 2.57	40	1.00	2.64	42.13	28.88
NYS	Warner-Lambert	WLA	105.00	108.75	3.75	3.57	18	3.04	2.80	118.75	84.75
OTC	Zenith Labs	ZENL	5.25	5.25	0.00	0.00	—	0.00	0.00	14.00	3.50
Other retailer transactions											
NYS	Albertson's	ABS	55.50	59.13	3.63	6.53	20	0.96	1.62	60.25	42.00
NYS	American Stores	ASC	61.25	65.88	4.63	7.55	19	1.12	1.70	72.50	51.38
NYS	Giant Food	GFS.A	27.00	28.13	1.13	4.17	16	0.48	1.71	36.25	24.13
NYS	Great Atlantic&Pacific Tea	GAP	53.00	57.63	4.63	8.73	0	0.00	0.00	65.38	48.25
NYS	K mart	KM	34.75	34.25	−0.50	− 1.44	21	1.64	4.79	44.88	32.13
NYS	Kroger	KR	13.13	12.50	−0.63	− 4.76	− 54	0.00	0.00	19.75	10.63
NYS	Melville Corp.	MES	48.38	49.13	0.75	1.55	14	1.40	2.85	53.63	39.50
OTC	Fred Meyer	MEYR	14.00	14.63	0.63	4.46	9	0.00	0.00	23.00	13.00
NYS	Penney, JC	JCP	68.75	68.25	−0.50	− 0.73	11	2.64	3.87	75.63	53.13
NYS	Smith's Food & Drug (H)	SFD	27.38	28.63	1.25	4.57	24	0.28	0.98	28.63	20.50
NYS	Wal-Mart (H)	WMT	47.25	50.00	2.75	5.82	26	0.28	0.56	50.00	34.25

Key: (H) = New high in period. (L) = New low in period. (d) = Deficit. NYS = New York. ASE = American. OTC = Over the counter. (s) = Reflects stock split.
Source: Nordby International, Inc., Boulder, Colorado

CS150-2

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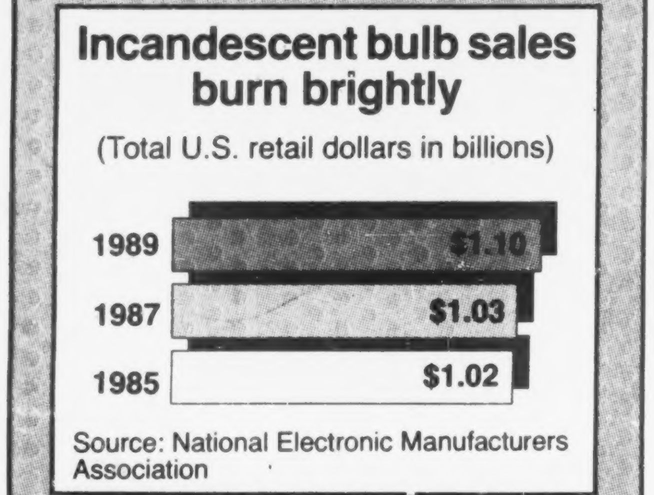
Vol. 12/No. 9 **Our 62nd year of serving chains, wholesalers and high-volume independents** Published by Lebhar-Friedman Inc. May 14, 1990

TOP OF WEEK FEATURES


Incandescent bulb sales burn brightly

(Total U.S. retail dollars in billions)

Source: National Electronic Manufacturers Association

Turning on specialty bulb sales

Drug chains mix sales of high-volume standard bulbs with specialty items to boost margins. Trends, page 19.

Drug Emporium eyes Empire State

The deep discounter scouts Long Island sites for its first corporate-owned stores in New York. Page 3.

LATE NEWS

- **TWINSBURG, Ohio — A plan of reorganization for Revco's Odd Lot Parent, Inc., subsidiary was confirmed April 24 in U.S. Bankruptcy Court, allowing for payment of Odd Lot's creditors. In a related development, General Computer Corp. reached a proposed settlement of claims between GCC and Revco, subject to court approval.**
- **WASHINGTON — In a decision which has major antitrust implications for the future of retail mergers, the U.S. Supreme Court ruled 9-0 that California can proceed with efforts to halt the merger of American Stores' Alpha Beta and Lucky store divisions. In effect, the decision gives states and consumers the power to use federal antitrust laws and federal courts to challenge business mergers.**
- **CLEVELAND — A trial date of July 2 has been set for opening arguments and jury selection in the Ohio bribery case involving Rite Aid and its president, Martin Grass. Grass is accused of trying to bribe an Ohio State Pharmacy Board member in order to vacate his seat. Grass has denied any wrongdoing.**

Reliable set to buy 221 Revcos

By Susan Ball

INDIANAPOLIS — Reliable Holding Corp. has entered into an agreement with Revco D.S. to purchase 221 Revco drug stores in eight Midwestern states, which will almost triple Reliable Drug's store count and move it into the top 20 drug chains in sales volume.

Once the deal is completed, Reliable, which currently operates 112 stores in Indiana, Illinois, Iowa and Kentucky, will have an enhanced presence in those states plus penetration into four more—Michigan, western Tennessee, Kansas and Missouri—for a total of 333 stores. The combined operations are expected to generate annual sales in excess of $500 million.

The agreement represents the first major step in Revco's plan, announced Jan. 26, to divest 712 of its stores in 17 states, with the 221-store package comprising almost one-third of that group.

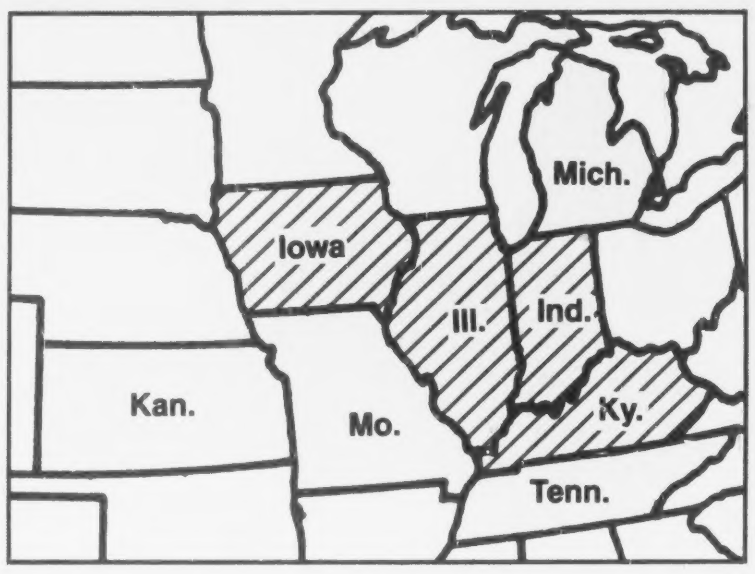
Roger Grass, Reliable's president and ceo, who formed the chain last August with Charles Conaway,

See **Reliable,** *page 25*

Reliable triples Midwest presence

▨ Reliable's existing states of operation
☐ Reliable's expanded territory after Revco deal is concluded

	Reliable	Revco	Total for Reliable
Indiana	85	27	112
Illinois	12	16	28
Iowa	11	12	23
Kentucky	4	28	32
Western Tenn.	0	34	34
Kansas	0	31	31
Michigan	0	40	40
Missouri	0	33	33
Total	112	221	333



Source: Reliable Drugs

Eils calls for action as his NACDS reign begins

By Al Heller

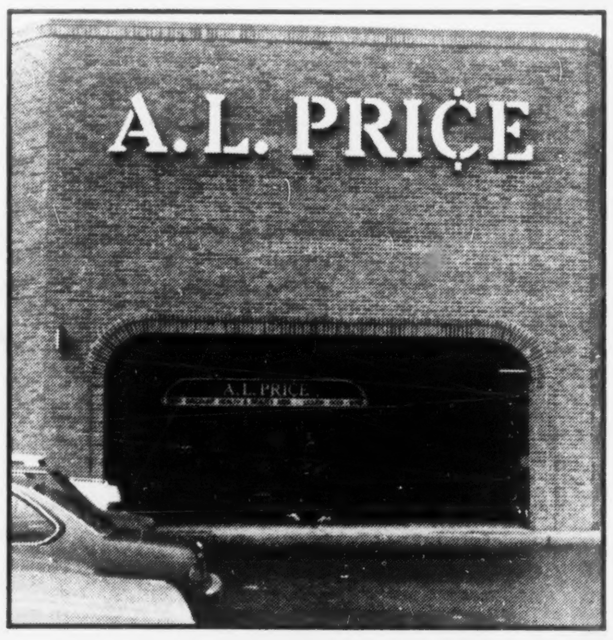
PALM BEACH, Fla. — Calling for a grass-roots mobilization of drug chains to face the challenges of the '90s, Richard G. Eils, president, ceo and chief operations officer of Thrifty Corp., officially began his 1990-91 reign as NACDS chairman of the board.

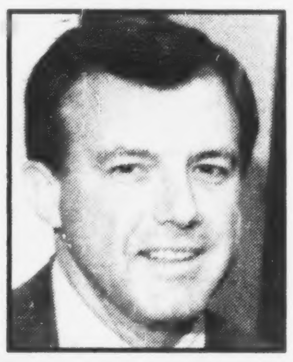
He called for a marshalling of resources around three critical issues: cost containment, multi-tiered pricing, and cost and supply of skilled employees.

Citing the role of drug chains in delivering health care to Americans, Eils said: "We're on the right side of these issues. . . all the hats we wear are white. . . We cannot allow others, whether they be governmental or educational establishments, to dictate to us how to serve our customers. It is. . . foolish be-

See **Eils,** *page 25*

Richard Eils, left, takes the NACDS gavel from outgoing chairman Gerald Heller at Palm Beach annual meeting.





Above: Bill Edwards. Left: A. L. Price unit in Southfield, Mich. Perry looks to focus on core drug stores.

Perry selling A. L. Price to Edwards, former F&M head

PONTIAC, Mich. — Citing a desire to concentrate on its core drug store business, Perry Drug Stores has agreed to sell its A. L. Price deep-discount division to Bill Edwards, former president of F&M Distributors and Revco D.S.

Edwards contracted in late April to purchase 14 of the 16 A. L. Price stores open in the greater Detroit

See **Perry** *page 25*

McK takes $20M charge, cites customer debt

SAN FRANCISCO — Citing concern over the weakened financial condition of some of its highly leveraged retail customers, McKesson Corp. has taken a hefty $20 million charge against fourth-quarter earnings. McKesson Drug accounted for 80 percent of that charge.

When McKesson announced its intention to increase reserves, a week before posting results, the stock price fell sharply (by $2.25 to $34.375) the following day.

Noting the reserve increase came after an intensive two-month credit review of its larger retail accounts, Alan Seelenfreund, chairman and ceo, and Rex R. Malson, president and chief operations officer, stated jointly, "McKesson's decision to increase its reserves reflects a concern on our part that some of our retail customers have employed excessive leverage in recent years and are using their suppliers to supplement their bank credit lines.

"Given the narrow margins inherent in the distribution business, the risk-reward ratio for McKesson to act as an

See **McK,** *page 26*

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SECOND CLASS

NEWS IN BRIEF

Eckerd vp inducted into hall of fame

Banks

CLEARWATER, Fla. — Ken Banks, Eckerd Drug's vp-marketing communications, was inducted into the Retail Advertising Hall of Fame at its recent 38th annual conference.

A 10-year Eckerd veteran, Banks was cited by the association for his innovative use of media and "brilliantly fresh marketing concepts," and for showing an "uncanny ability to take any merchandise or service story, and with deft creative touches, transform it into a real gem."

Arbor adding five Michigan units

TROY, Mich. — Arbor Drug will open five new stores in Michigan within the next month, including the store being designated as Store No. 100. That milestone unit will open May 19 in the suburban township of St. Clair Shores, northeast of Detroit.

Three of the new units will open in upstate Michigan, including an opening in Midland May 21 and two stores set for a May 14 opening in nearby Saginaw. Arbor will also add its third store in Ann Arbor June 9.

Several more units are in final stages of completion, a spokesman said. Arbor will "easily" have 150 units on line by the mid-1990s, he added.

Bergen opens 71,000-square-foot DC

ORANGE, Calif. — Bergen Brunswig Drug Co. recently opened a 71,000-square-foot full-service distribution center in Kansas City, Mo.

The wholesaler's Kansas division, which opened April 2, is a full-line supplier of OTC and H&BA products as well as pharmaceutical items. The DC will serve customers in Kansas, Missouri, Iowa and Nebraska.

CVS canopy collapses, 2 hurt

LINDENHURST, N.Y. — Two persons were injured, one seriously, when the canopy overhanging the sidewalk at a CVS store here collapsed April 23. About 60 to 70 feet of a concrete, metal and wood roof structure on the store in a commercial strip crashed.

CVS leases the store, which was closed after the accident for about a day but reopened the following afternoon. A spokesman at the chain declined to comment further.

Goldsmith drops B.A.T. bid

LONDON — Sir James Goldsmith recently dropped his nine-month quest to acquire B.A.T. Industries P.L.C., which holds about a 40 percent interest in Imasco Ltd., the Canadian owner of Peoples Drug Stores in the United States and Shoppers Drug Mart in Canada.

Perry picks new ad agency

PONTIAC, Mich. — Perry Drug Stores has picked Yaffe and Co. of Southfield, Mich., as its new advertising agency, replacing W.B. Doner & Co.

"We believe Yaffe and Co. can help us communicate all that we offer in our stores in the 1990s," commented David Schwartz, president and chief operating officer of Perry.

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Bindley gets $150M contract

INDIANAPOLIS — Bindley Western has been named the primary supplier of pharmaceuticals to Peyton Distribution of Cincinnati, a Kroger subsidiary that services the SupeRx division of Hook-SupeRx, Kroger's Sav-on combos and Denver-based King Soopers.

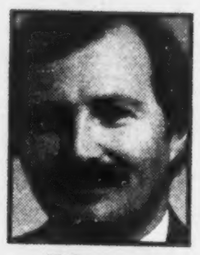
The account will mean in excess of $150 million annually for Bindley Western, said Keith Burks, president and chief operating officer.

Bindley Western will serve Peyton's Bluffton, Ind., facility from its distribution center here, and will serve Peyton's Cleveland, Tenn., warehouse from its DC in Atlanta, Ga.

News of the large pact with Peyton came about a week after Bindley Western reported that record sales and earnings for the quarter ended March 31. Sales were $433 million, a 20 percent gain over first-quarter $362 million in 1989. Earnings jumped 78 percent, to $1.6 million, or 25 cents per share, from $901,000, or 15 cents per share.

Chairman and ceo William E. Bindley said the record performance came from gains in all segments, especially in sales of products to accounts other than chain drug warehouses.

Bloom dinner set for May 17


Bloom

NEW YORK — At press time, more than 150 companies have committed to 800 seats at The Torch of Learning Award Dinner honoring David R. Bloom, chairman and ceo of the Imasco Drug Retailing Group.

Fundraising efforts have so far tripled those of any previous dinner held by The American and Canadian Friends of the Hebrew University, and will easily surpass the $1.2 million goal. Bloom is being honored upon the establishment of The David R. Bloom Center for Pharmacy at the Hebrew University of Jerusalem.

Barbara Walters will be the guest speaker at the May 17 dinner at the New York Marriott Marquis. For limited seats that remain, call Arthur Konviser or Louis Goelman at Shoppers Drug Mart, (416) 493-1220.

Cunningham to motor, get prez

POMPANO BEACH, Fla. — Cunningham Drugs is consolidating its operations and moving its headquarters to Detroit. Stewart G. Smith replaced Jim Devine as president of Cunningham Drugs and Partshap Corp. in late April.

McK taps Johnson ceo and chairman of 3rd-party service

Johnson

SCOTTSDALE, Ariz. — McKesson Corp. announced that Robert Johnson, 54, has been appointed chairman and ceo of PCS Inc., the industry's largest provider of third-party prescription claims services. Robert E. Abrams, 61, was named to the newly created post of vp-special projects at PCS.

The announcement, by Rex Malson, McKesson's president and chief operating officer, followed closely the completion of McKesson's acquisition of the 14 percent of PCS outstanding shares not already owned by the corporation, at $20 per share, making PCS a wholly-owned subsidiary of McKesson. McKesson had announced in December its plans to name Johnson chairman and ceo upon completion of the acquisition.

Johnson and Abrams are both former executives of the California Pharmacists Association (CPhA).

Johnson for 19 years was executive vp of CPhA, the country's largest state pharmacy organization with more than 7,000 members, and its two subsidiaries, California Pharmacists Inc. (CPh) and the Pharmacy Care Network (PCN). He also served as editor of the CPhA monthly publication *California Pharmacist.*

CPh administers an insurance program for members of the state organization, and PCN, which was established under Johnson's leadership five years ago, is the nation's largest pharmacy preferred provider organization.

A licensed pharmacist, Johnson was previously executive director of the Michigan Pharmacists Association. He received both his bachelor of science in pharmacy and his master of science in pharmacy administration from Wayne State University. He holds an honorary doctor of public service degree from the University of the Pacific.

Abrams was formerly PCN's vp-marketing. From 1969 to 1972 and again from 1977 to 1979, he served as president of PAID, a third-party prescription drug reimbursement company. In the intervening five years he was president of Health Application Systems, which administered health claims for both governmental and nongovernmental clients.

Johnson succeeds Alan Seelenfreund as chairman and John Pfeiffer as ceo of PCS. Pfeiffer retired as vice-chairman and ceo upon completion of the acquisition making PCS a wholly-owned McKesson subsidiary.

Carole L. Kennedy, 47, named president and chief operating officer of PCS in December, will continue in those posts.

Harris looks to grow with promotions

SOLON, Ohio — Harris Wholesale has announced a series of promotions it said helps to position it for planned growth under owner R.A.B. Holdings Inc., which bought the chain in January 1989.

At headquarters, Mike Visnich has joined Harris as vp-retail marketing. He comes from General Medical Corp., an R.A.B.-owned hospital supplier.

John Nixon, who served most recently as vp-gm, New England Division, has been named corporate group vp with responsibilities for directing purchasing, sales and corporate planning.

Also, five persons have been named to senior divisional posts with responsibility in each case for the division's operations and sales.

Lewis Mead, a recent G.M.C. employee, has been named vp, Atlanta division. Horace Kirkland is named Atlanta division gm. Kirkland was most recently with Alco Health Services.

Bill LaGamba has been promoted to gm, Western Pennsylvania division. LaGamba was most recently Harris' director of institutional sales.

Also, Wally Hink is promoted to vp-gm, Florida division.

William Hinchcliffe, recently a general manager at Bergen Brunswig, has been named gm, New England division.

With $1 billion-plus annual sales, Harris, a private company, operates in most East Coast states and in some Midwest states as far west as Michigan.

OPINION

NACDS speakers tap industry future

In all of the vast number of words spoken at the NACDS annual meeting, two themes stood out.

First, pressures on pharmacy are going to intensify, and chains had better gird themselves for a long siege by government and industry cost-cutters as well as a whole range of tough competitors.

IN THE MARKET
BRUCE BUCKLEY

Second, the war being waged for the drug store's other core categories is bound to get even hotter. Only those operators who are able to stay fresh, trim costs and find and train good people will thrive.

Of course, there's nothing new in this. But what was valuable was the classy way that the NACDS meeting speakers addressed those issues. Speeches and commentaries were jam-packed with facts and delivered in down-to-earth language. Who could ask for more?

In a limited space it's difficult to capture even a small portion of the meeting's flavor, but let me play back a brief sampling of notes scribbled in the dark of the vast meeting room:

C. Everett Koop, former U.S. Surgeon General: "The medical care system in this country is laissez-faire, but it is not competitive. . . I know you [members of NACDS] take pride in the competitive nature of community pharmacy even if pharmacy drug costs have risen."

Jim Harrison Jr. of Harco Drug: "The survival of our industry rests on pharmacy, which makes up 30 to 40 percent of drug store sales and a larger percentage of profits. [It's important for drug stores] to dance with who brought them."

Mike Wright of Super Valu: "I suggest you seek ways to better appeal to the practical or smart shoppers who are pressured for time and largely oriented to making their life more comfortable — but who are also price sensitive."

Fred Canning of Walgreens: "Deep discounters such as Phar-Mor and Drug Emporium are obvious price threats, but I think the jury is still out on this concept. Some will execute well and be successful, but there will be fallout."

Peter D. Hart of Hart Research Associates: "Don't ever lose that trust [that customers have in their pharmacists]. People who know their pharmacist by name shop in drug stores more."

> *'The survival of our industry rests on pharmacy, which makes up 30 to 40 percent of drug store sales. . . [It's important for drug stores] to dance with who brought them.'*
> **— Jim Harrison Jr. of Harco Drug**

Jerry Heller of May's: "If I succeeded in raising the profile of small chains with their peers and with suppliers during the past year [as chairman of NACDS], that may be my most important accomplishment."

Dick Eils of Thrifty: "We have a great case. We know that markets work. We know that free market pricing is the best guarantee of safe, affordable products for consumers. And we know that's what we can deliver. We have the trust of the American people. We must now aggressively take our case to the [third-party] payers and to State Houses across the country."

A Tribute to Dick Groberg

Dick Groberg served Lebhar-Friedman for 32 years in many capacities. He retired in December, and died last month of complications from multiple sclerosis. The following is a tribute to Mr. Groberg written by J. Roger Friedman, president of Lebhar-Friedman, Inc.

Yesterday I attended a funeral service. The casket was draped with an American flag. This flag symbolized Dick Groberg's life. Dick believed in the values of our country. Like our people, he was honest, outspoken and wielded great influence.

Dick joined Lebhar-Friedman 32 years ago as an associate editor. Over the years he was promoted to editor, publication director, group publications director and, during the last few years, vice president of human resources.

For several years Dick knew he had multiple sclerosis. He initially had to give up tennis. His comment was, "This is a young man's game, let them play it." Eventually Dick reached the point where he could no longer take the train to work and was forced to drive. As his condition worsened, he had to use a cane. Never once did he complain or feel that life had treated him unfairly.

He was a great believer in corporate training, and up to his retirement he continued to develop instructional programs for our new associates. He was honest. During our executive committee meetings, Dick could be counted on to give his opinion without emotionalism or prejudice. His famous line, "My tummy tells me. . . " meant that over and above the reports and the figures, there was another factor. This intuitive evaluation was based on his belief that individuals had a basic responsibility to help themselves, to be honest to their associates and to uphold the standards and values of the organization that they represented.

Several years ago, Dick discussed with me the possibility of his retiring and I told him that the company still needed him. We needed his calm, level voice, and we needed his even-handed approach to business problems. He agreed to stay on.

Retirement tribute

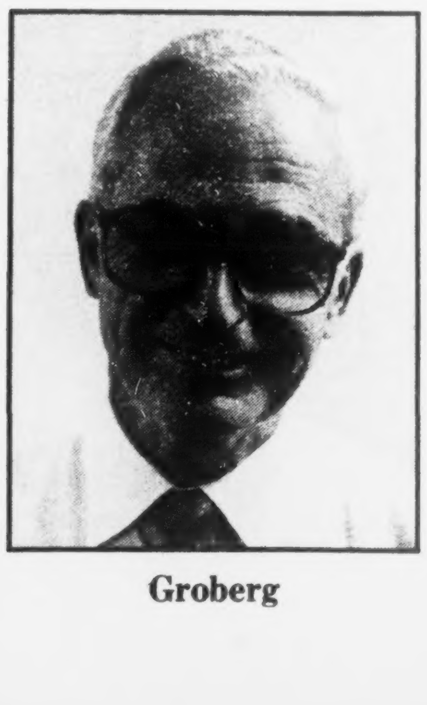
His retirement dinner this past December was a tribute to the affection and esteem his business friends held for him. The restaurant was filled to capacity. Many of his associates flew in at their own expense.

At our December luncheon, Dick was surprised when he was the recipient of the Arnold D. Friedman Citizenship Award. This award is given annually to the individual in the company who most personifies my father's spirit of "treating his associates as family." Part of this award is a two-week trip for the recipient and his spouse to any place they so desire. As recently as three weeks ago, Dick was talking about *his* trip.

He never will take this well-deserved vacation, but every time we have a business problem at Lebhar-Friedman, every time the atmosphere begins to heat up and every time tempers begin to flare, I will think of Dick and try to imagine what his tummy would have told him.

I know the Executive Committee on High is saying, "Dick what do *you* feel?"

— J. Roger Friedman



Groberg

> *His famous line, 'My tummy tells me. . . ' meant that over and above the reports and the figures, there was another factor. This intuitive evaluation was based on his belief that individuals had a basic responsibility to help themselves, to be honest to their associates and to uphold the standards and values of the organization that they represented.*

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Chains urging consumers to lighten up

When it comes to light bulbs, merchants often think their ideas outshine others. The energy going into lighting sets is being augmented this year by some bright introductions that may induce consumers to trade up and raise overall category performance.

This year's debut by GTE/ Sylvania and North American Philips of screw-in "A-line" halogen lights for everyday consumer use provide a new premium light.

General Electric continues to sell its "A-line" halogens in hardware and home center outlets for commercial users and has no immediate plans to expand them into other retail channels such as drug stores. However, GE in December launched a 14-sku non-screw-in halogen line of specialty and decorative bulbs aimed at all trade classes.

Besides emitting a better quality light, halogen bulbs will last more than twice as long as standard incandescent bulbs, vendors claim. Some see them as an opportunity for drug chains to compete against discount stores by upgrading the assortment with value-added items, where they can recover profits lost from promoting standard bulbs as loss leaders.

Chains usually take 30- to 50-percent margins on light bulbs, even when frequently discounting the "A-line" SKUs. They recover margin from the specialty bulbs, the fastest-growing bulb segment because of trends such as: "nesting," or staying at home; and the perception that decorative lights are an inexpensive way to improve the home.

Consumer halogens' features include a whiter, more natural light, with prices 30 to 40 percent above standard incandescent.

Incandescent bulb sales burn brightly

(Total U.S. retail dollars in billions)

1989	$1.10
1988	1.06
1987	1.03
1986	1.01
1985	1.02

Unit retail bulb sales climb steadily

(In billions)

1989	1.71
1988	1.67
1987	1.61
1986	1.57
1985	1.51

Source: National Electronic Manufacturers Association

Sylvania will launch its A-line halogen in the second half. It will have triple the life of a standard bulb, said Robert Brands, marketing manager, U.S. Lighting Division, GTE/ Sylvania.

Philips will make available its HalogenA screw-in bulbs for shelf delivery in August. The four SKUs are double-envelope lamps in tubular shapes and will be interchangeable with incandescent lamps of the same wattage.

Will these be accepted by drug chains.

"We may let the pioneering [of halogen] go to somebody else," said Chuck Bower, buyer at Kerr Drugs.

Kerr has a sharp price orientation. Facing heavy supermarket competition, Bower strives for a consistent value image for his GE program, setting out everyday low prices. With the large percent of Kerr's bulb sales coming from standards on ad, Kerr counts on forward buying to hold costs and on specialty bulb sales (globes, reflectors, parabolic bulbs and floods) to keep the category margin at 40 percent.

Some buyers though feel halogen's quality will appeal to educated, higher-income consumers. "[Retailers] are putting far too much emphasis on the price. I don't think [bulbs] are a price-driven product," says John Kunzi, Drug Emporium's director of general merchandise.

The long-life bulbs by GE, Sylvania and Philips showed that consumers are willing to pay more for performance, Kunzi said.

Drug Emporium stores are single-vendor stores carrying Sylvania at everyday low prices in 16- to 20-foot sections, where they get the best return on investment, Kunzi said.

Smell of success?

Kunzi and other buyers said it is still too early to gauge whether scented bulbs will catch on with consumers. Sylvania introduced Lite Scents lamps, bulbs that emit orange, cranberry and pine-scented fragrances. S.C. Johnson launched a similar non-light bulb item this year with its Glade Plug-Ins air fresheners, electric warming units with scent cartridges.

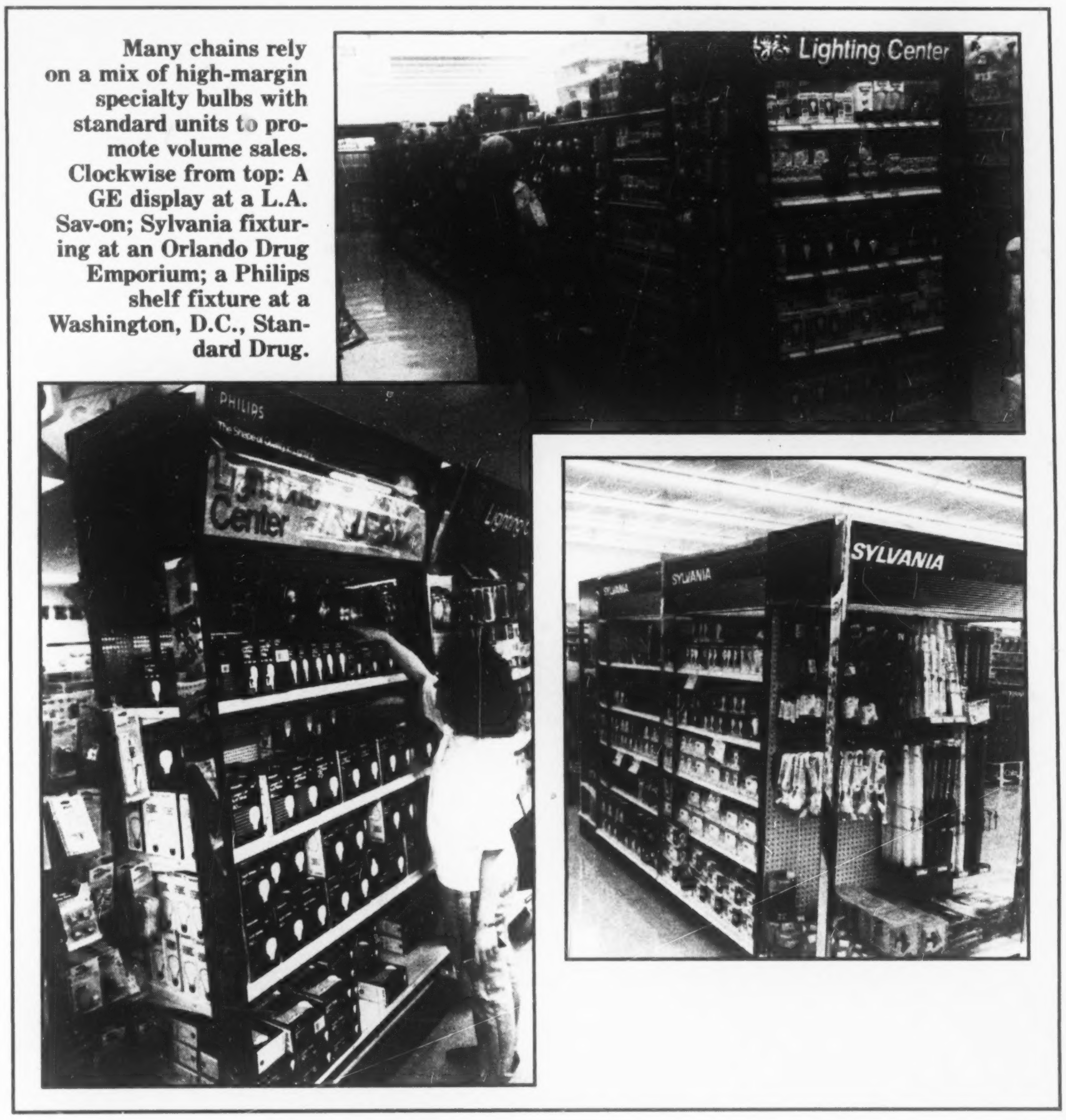
A one-line chain

At Phar-Mor, Philips is displayed exclusively in as much as 100 feet. Offerings this year will include Philips' new three-way pastel bulbs and the Alert light, with a backup filament.

Kinney Drugs in New York periodically promotes GE standard bulbs, offering, for example, its four-pack soft-white at $1.99 or the four-pack Miser, said buyer Elaine Matott, who added, "We're not the lowest in the market.I don't feel the usage is that great, with consumers looking for them in hardware and department stores."

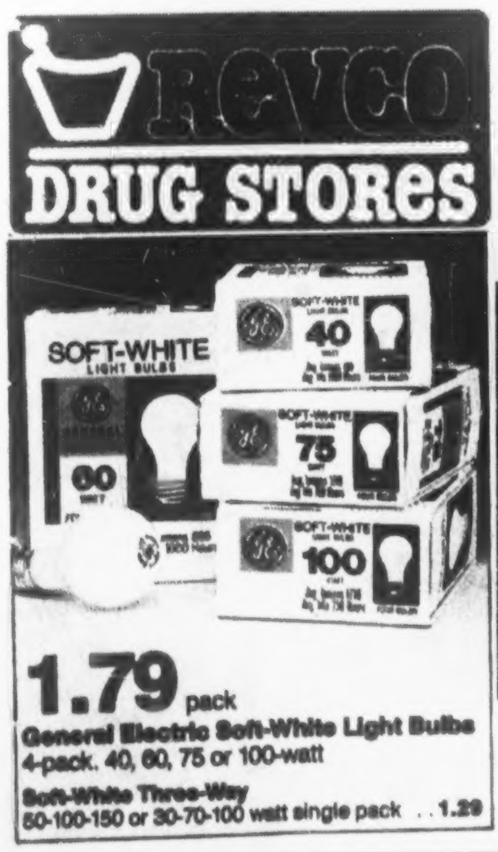
In-store promotions

Vendors continue to place promotional emphasis at store level. GE is launching chain-specific tie-in promotions in the third quarter with rebates or dollars back for buying a second product. Sylvania plans a second-quarter promotion where consumers win cash if they're spotted with Sylvania products in their shopping carts.



Many chains rely on a mix of high-margin specialty bulbs with standard units to promote volume sales. Clockwise from top: A GE display at a L.A. Sav-on; Sylvania fixturing at an Orlando Drug Emporium; a Philips shelf fixture at a Washington, D.C., Standard Drug.

Chains plug pricing to turn on consumers



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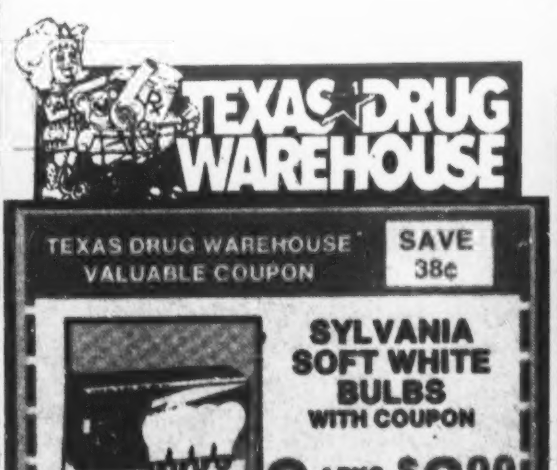

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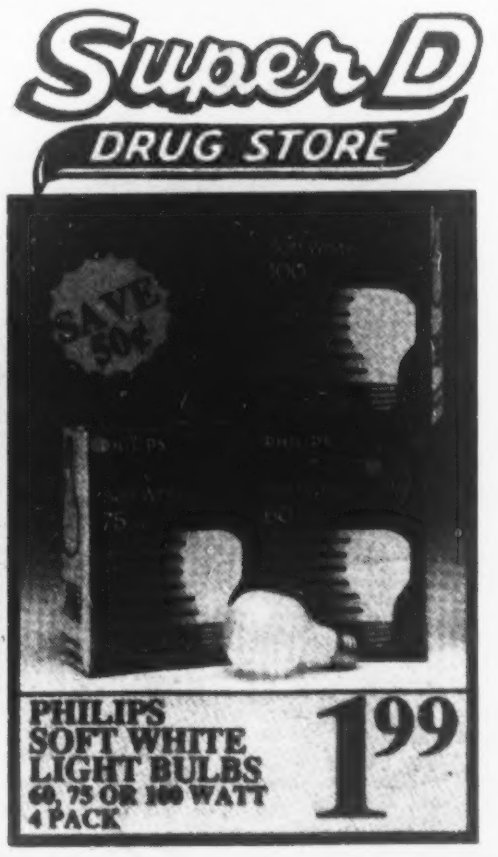

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